S. HRG. 100-809 PT. 2

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

## HEARINGS

BEFORE A

## SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

## H.R. 4637

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1989, AND FOR OTHER PURPOSES

### PART 2 (Pages 1-629)

**AFRICAN DEVELOPMENT FOUNDATION**
**AGENCY FOR INTERNATIONAL DEVELOPMENT**
**DEPARTMENT OF STATE**
**INTER-AMERICAN FOUNDATION**
**PEACE CORPS**

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# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

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TUESDAY, APRIL 26, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:20 a.m. in room S-128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Mikulski, Kasten D'Amato, and Nickles.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### STATEMENT OF AMBASSADOR ALAN WOODS, DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, AND ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

**ACCOMPANIED BY:**

- **RICHARD E. BISSELL, ASSISTANT ADMINISTRATOR, BUREAU FOR PROGRAM AND POLICY COORDINATION**
- **NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR, BUREAU FOR SCIENCE AND TECHNOLOGY**
- **ROBERT HALLIGAN, ASSISTANT TO THE ADMINISTRATOR FOR PERSONNEL AND FINANCIAL MANAGEMENT**
- **MICHAEL USNICK, ACTING CONTROLLER**
- **THOMAS A. McKAY, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE**
- **HOWARD A. MINNERS, M.D., SCIENCE ADVISOR**

### OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order.

This morning we will continue our examination of the President's request for fiscal year 1989 funding for foreign assistance programs.

This morning our focus is on A.I.D. We will be looking closely at the way A.I.D. implements its centrally funded development assistance programs and the way it handles some of the pressing issues of development, especially health, population and nutrition.

We also are concerned with learning how it has responded to the operating changes which Congress has required of the Agency in recent years.

## WORLD PROBLEMS

Today the world is faced with multiple problems. Blooming global population, the rapid depletion of its natural resources, scarcity of living space, exhaustion of its agricultural land, and a shortage of low cost energy are but a few of the more pressing problems.

Experts predict that these problems are likely to get worse before they get better. Our challenge is to find solutions which will improve the quality of life for this and future generations.

It is sobering to note that according to recent estimates prepared by the U.S. Bureau of Census, the population of the world now stands at over 5 billion. It took about a century and a quarter for the world's population to grow from 1 to 2 billion. The acceleration in population growth is seen in the fact that it took only about 13 years of global population to grow from 4 to 5 billion. By the year 2040, the world population is expected to reach 10 billion inhabitants.

## BIRTH RATES

As we consider the information exchanged here today, we should keep in mind that the birth rate in the developing countries is more than twice what it is in the developed countries.

More sobering, however, is the fact that today the world's population is growing at the rate of four births every second or 137 million births this year. In the time that it has taken to read this introduction, 480 children have been born. The question we must ask ourselves as we begin our deliberations is this: What will be our legacy to them in a generation's time?

This morning we are fortunate to have with us the Honorable Alan Woods, the Administrator of the Agency for International Development. This is Mr. Woods' first appearance before the subcommittee.

I congratulate you on your appointment, and I wish you well.

Please proceed.

## OPENING REMARKS

Ambassador WOODS. Thank you very much, Senator. I have submitted a lengthy statement for the record, and if I may I would just like to add a few verbal opening remarks.

Senator INOUYE. Without objection, your full statement will be made a part of the record.

Ambassador WOODS. After arriving at A.I.D. and talking to people there, I have become quite impressed with the difficulties and management challenges we face. We work in a multicultural environment. We work in some of the most difficult places in the world to get a job done. I have been impressed in the 4 months, almost 5, that I have been Administrator as to how well A.I.D. does in this atmosphere.

## BUDGET REQUEST

We have a budget request before the committee for approximately $5.4 billion, which is consistent with the budget summit agreement. Having gone through the allocations exercise for fiscal year 1988 budget, I have developed an appreciation for the difficulty that this committee must face, given the constrained budget environment in which we operate and make very difficult budget choices.

I would mention a couple of specific areas where I had to make some difficult decisions.

## HEALTH AREA

First, the general area of health. I am referring not just to the health account, but to the entire area of health, child survival, population programs and AIDS. In these areas you will see that most of the recommendations we have made are straight-lined from fiscal year 1988 and in a few there are decreases.

However, if you look at those accounts taken together, you will see that they represent a higher percentage of our total DA budget by a marginal amount than last year's appropriations.

## EDUCATION

We have requested increases for two areas which I would like to draw to your attention. One is in the education account, which I know is of interest to this committee. This is the account from which we fund our participant training programs, our women in development programs, our labor programs, our vocational education programs, and our basic education programs.

We had an earmark for basic education last year, and I would like to note the fact that, within the education account, the dollars that go with basic education are in direct competition with the participant training programs, the women in development programs, the labor programs, and the vocational education programs. We need to be sensitive to these tradeoffs.

## PRIVATE SECTOR ENVIRONMENT AND ENERGY ACCOUNT

The other area which we increased marginally was the 106 account—what I call the Private Sector, Environment and Energy account. Basically, this is the account which provides resources for job creation activities. The total demands on this account in terms of our overall DA budget is only 8.3 percent, and I hope that the committee can see its way to fully fund these important activities.

We have also requested the creation of a private sector revolving fund, which I view as a new tool for job creation for our missions. I hope you will look closely at this innovative proposal.

Finally, on operating expenses we are requesting a 2-percent increase in the OE budget from $406 to $414 million. This is actually a $12 million reduction from the 1988 request. Two-thirds of this increase is needed to cover the January 1988 federal pay increase and for the increased costs of the new federal retirement fund.

I will be glad to take any questions that you have, Senator.

[The statement follows:]

STATEMENT OF
ALAN WOODS
ACTING DIRECTOR
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AND
ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT

## Introduction

Mr. Chairman, it is a pleasure to appear before you to present the Administration's FY 1989 proposed program for foreign economic assistance.

The overall fiscal framework established by the Budget Summit in November has challenged us to formulate a budget request that will meet our country's highest priority foreign policy and economic assistance objectives with extremely limited resources. Because of these fiscal limitations, our FY 1989 request is essentially straightlined from FY 1988.

A combination of critical foreign policy needs that must be met through the foreign assistance budget, changing country requirements, and severely limited budgetary resources demands that we look very carefully at our whole program to ensure that we are pursuing our objectives in the most effective way.

Foreign aid is critical to the achievement of U.S. foreign policy objectives, -- objectives which are inextricably tied to the economic health of our country. The economic growth and development of other nations is clearly in the interest of the United States -- just as it is in the national interest of the countries to which we provide assistance. Domestically, however, these linkages often are understood poorly, particularly in times of overall budget stringency.

Benefits to the United States

Political stability based on economic stability in, for example, the Middle East and Central America is basic to U.S. national security interests. Without U.S. assistance, the prospects are grim for economic growth in many Third World countries that are increasingly important to us politically and as trading partners.

The returns on U.S. investments in the economic growth of other countries are demonstrable. Some of this investment began 40 years ago. Today, Western Europe and Japan, helped by the U.S. following World War II, are economically sound - they are our allies - and they are also leading consumers of U.S. exports.

Dramatic progress has also been made by early recipients of U.S. economic assistance that began about 25 years ago. Korea, Taiwan, Brazil and Greece are examples. Many countries that received U.S. assistance when they were "developing" are now "newly industrialized". As such they have become important trading partners of developed countries and they are also in a position to help other less developed countries.

Our foreign aid investments over the past twenty-five years have resulted in significant economic benefits to the U.S.

-- Taken together the developing and newly industrialized countries purchase more than 35% of all U.S. exports.

-- For 1987, exports to these nations were worth $81.6 billion to the U.S.

-- Our sales of manufactured goods to developing nations are impressive. In 1987, 34% of our earnings in America's top export line -- machinery and transport equipment -- came from sales to developing countries.

High rates of economic growth in other countries for the last several decades have benefited U.S. farmers. Developing countries' agricultural imports from the U.S. increased fifteen-fold from 1970 to 1981.

- Of the 50 largest buyers of U.S. farm goods, 21 are countries that used to receive PL-480 food aid from the U.S.
- Korea now buys as much from U.S. farmers in one year as it received in its 25 years as a PL 480 recipient.

## Benefits to LDCs

U.S. foreign aid brings substantial improvements in the quality of life in LDCs. As a result, our assistance is one of the most important means of promoting the humanitarian ideals and democratic values of the American people.

Without our food aid, an estimated 20 million people would have died in Sub-Saharan Africa in one of the worst droughts in history. Americans are justly proud of their role in this emergency relief and we will continue to respond to such needs in the future. The challenge from this experience is to help countries develop to the point where they can survive their short term crises and resume strategies aimed at growth and development rather than continue to depend on large amounts of external relief.

There are many sustained improvements in the quality of life in LDCs with which we are proud to have been associated:

- Substantial progress toward reducing world poverty and improving the basic conditions of life. Between 1960 and the early 1980's GNP per capita in developing countries, excluding China and the high income oil exporters, rose by 75 percent.
- The reduction of child mortality by one half;
- The elimination of smallpox from the world;
- The entrance into primary school of the majority of children in developing countries;
- A 10-20 year increase in life expectancy in the Third World;

- -- The ability of many couples throughout developing countries to voluntarily plan the number and spacing of their children.

## A Strategy for Economic Development

A strategy for broad based and sustainable economic development includes a number of critical and mutually reinforcing elements: a political and economic climate in which economic growth can occur; a vital private sector; the human capital necessary for productivity; institutional structures that will sustain growth and broaden participation of the people; access to technology with which to improve productivity, health and communications; and, a national capacity to manage rather than simply exploit resources -- financial, natural and human.

I would like to cite some successful examples of A.I.D.'s strategy upon which we intend to build in the future.

## Economic Growth

The first element in our strategy is a sound economic policy climate to stimulate growth and promote efficient resource use. Many economic problems in developing countries result from economies controlled by the government and shielded from the operation of market forces. Through experience, A.I.D. has identified and targeted for change specific policies which are detrimental to growth in developing countries.

- -- Price control policies, protectionist trade regimes, and regulations that limit broad participation in the economy or shield government-owned enterprises from private sector competition all work against the nations that apply them -- while offering these nations the illusion of being in control of their economic destiny.
- -- Instead of harnessing the entrepreneurial energies of

their people, many of these nations are driving their entrepreneurs underground, as a recent study in Peru and anecdotal information from many other countries attests.

The trends toward economic policy reform have already been embraced by some developing countries, for example Nigeria, without donor involvement. However, the transition to a more appropriate economic policy environment requires difficult decisions that many governments predictably resist. Recognizing this, the U.S. and other donors must include in their assistance strategies measures to ameliorate the short term consequences of policy reform, while at the same time improving the indigenous capacity to analyze policy problems and alternatives and to manage the reform program. Our African Economic Policy Reform Program is attempting to do just that in several countries, by providing temporary balance of payments and budgetary support along with technical assistance and training in support of significant reform programs.

Substantial progress has been made in adopting economic policy and institutional changes necessary for growth in a number of countries including: Bangladesh, the Dominican Republic, Costa Rica, Ecuador, Guatemala, the Gambia, Ghana, Jamaica, Indonesia, Tunisia, Senegal, Niger, Swaziland and Mauritius.

In Bangladesh, policy reforms have stimulated economic growth while also meeting the needs of the poor. For example, PL 480 Title III food aid has been used to elicit important operational and policy changes that encourage farmer production. Food subsidies to segments of the population have also been cut by up to 75 percent. Buffer stocks and distribution management have been used to stabilize prices and make food more affordable to the rural poor. Prior to the recent floods, wheat production in Bangladesh was dramatically increased and near self-sufficiency in rice production had been achieved.

As a result of other reforms, associated with the Fertilizer Distribution Improvement Project, farmers in Bangladesh are now paying more reasonable prices and using more fertilizer to produce more food and increase their incomes. When A.I.D.-sponsored analysis revealed that fertilizer subsidies and government marketing costs threatened to absorb the country's entire agriculture budget, Bangladesh officials instituted reforms to encourage participation by private fertilizer retailers. These private entrepreneurs significantly expanded the reach of the distribution system at competitive prices.

Guatemala now has an impressive record of successful economic reforms and an improved business climate. The country is on a tenuous but credible path back to sustainable, positive economic growth rates as a result of these reforms. Inflation has been brought down from more than 30% in late 1986 to under 10% in 1987. Foreign debt repayments have been kept current. The exchange rate has remained stable for more than 15 months. From January to June 1987, foreign investment was up by $90 million over the same period in 1986. The Bank of Guatemala reports a 2.5% growth rate for 1987 -- only the second positive real GDP growth rate in five years.

## Private Enterprise

Most governments in all parts of the world have begun to realize that their public resources will never be adequate to provide all the goods people need or the kind of income and employment opportunities that are key to sustained economic growth. Policy changes that open up new opportunities for the operation of market forces both domestically and internationally are essential to provide the climate within which to increase the private sector involvement in development. In addition to encouraging such policy reforms, A.I.D. is working directly with the private sector to produce increased incomes, self-sustained employment, and higher standards of living. Our commitment to this focus is exemplified by a wide range of activities in such areas as investment and export promotion, management and skills training, credit and financial markets development and technology transfer.

Jamaica has made major strides in restructuring its economy for growth, following seven consecutive years of economic decline. Major government enterprises have been sold to the private sector, eliminating a major drain on the government budget, and the tax system has been greatly improved. As a result, the economy is now recovering, and unemployment among job seekers has fallen below 10% for the first time in more than a decade.

## Human Capital

The beneficiaries of economic growth are people. Those same people are also the human capital for that economic growth. The economic and political climate must engage the energies of people and offer productive employment opportunities that allow individuals the means to contribute and to provide for themselves and their families. Without education, skills and technology, people in developing countries are handicapped in their attempts to improve their own lives and to participate in and contribute to the economic growth of their societies. A.I.D. projects to raise the level and quality of education, health and participation in society are a direct investment in the human capital of a country and an important part of its overall economic growth strategy. Countries such as Jordan, Tunisia, Taiwan and many others have grown exceptionally rapidly over the past three decades, meeting the needs of their citizens much more effectively and equitably than most of their neighbors. They have done so by investing in strategies which improved health and education and relied on relatively free markets and private initiatives.

A.I.D. has given particular importance to education in areas such as Central America and the Caribbean. Though many qualitative and administrative problems remain, most countries have made major progress toward full enrollment. In Honduras, El Salvador and Costa Rica, for example, most children are now enrolled and almost 60 percent complete primary school.

Botswana, an example from a very different part of the world, has moved rapidly from few educated people at independence to a situation today in which most children can expect to complete at least primary school and planners are beginning to worry about how to match school graduates with available jobs.

## Institutional Structures

Our aid is also directed toward strengthening the institutional structures that are critical to sustainable development and democratic processes in developing countries.

In some countries, such as Kenya and Indonesia, we are working to liberalize the financial system and strengthen the capital markets and stock exchanges. In many of the Caribbean and Central American countries, we are supporting business and trade associations that help the private sector present its views to host governments. We have also provided funding for trade and investment promotion groups that promote trade between U.S. and developing country private enterprises.

The Rural Savings project, initiated in 1982 to address credit constraints to small farm producers, has shown that the mobilization of local savings could not only strengthen rural financial institutions, but also provide local, and therefore sustainable, funds for lending. Moreover, transaction costs to farmers distant from banks were too high, due to the expenses of transportation, lodging and time lost from work -- all burdens required of farmers in order to secure a loan. The project recommended approaches that capitalized on local informal institutions, connecting them with a second tier of credit unions, thus reducing costs and increasing reliability of credit delivery to remote small farmers. These approaches have proved successful in locations as diverse as Honduras, Bangladesh and Niger.

Institutional strengthening has been successful in other arenas as well, such as the activities to improve democratic participation in the Central American countries of Guatemala, Honduras, El Salvador and Costa Rica. These efforts are intended to achieve economic stability and renewed long-term growth; to promote broader participation in development; and to strengthen democratic institutions and respect for human rights, thereby consolidating the region's progress toward democracy and helping to deal with the underlying sources of social and political unrest.

Changes become permanent only when a broad segment of society values them and benefits from them. That is why we work so hard to ensure that the people who need to be involved in creating change are actually involved. We know that in many situations, it is the women of a country who play a critical role in institutionalizing new behavior -- on the farm and in businesses, as well as in the family. Our programs must reach them and engage their energies.

## Technology

Through our assistance programs, we are making available and more accessible technology, developed by the U.S., that can make a critical difference in productivity, health and communications. The development of a malaria vaccine, the institutionalization of the use of oral rehydration therapy (ORT) for treating diarrheal disease, "the green revolution" in agriculture and access to education through radio in remote village areas evidence the importance of technology to the survival and quality of life of millions.

The technology for oral rehydration has been successfully institutionalized in Egypt with A.I.D. assistance. In 1979, A.I.D. undertook an experimental ORT program that cut the infant mortality rate by 40% in just a few months. A subsequent $36 million A.I.D. project begun in 1981 and extended through 1990 has helped to extend the program nationwide. The oral rehydration salts are packaged by a private Egyptian firm, 60% of the packets are marketed through private pharmacies and over 90 percent of pharmacies now have oral rehydration salts available for sale.

## Capacity to Manage Natural Resources

Most developing countries depend principally on their renewable natural resource endowments for economic growth, and will continue to do so for the foreseeable future. Yet the resources essential to economic growth in developing countries are threatened by rapid population growth, extreme poverty, resource tenure problems, pollution of the air, water and soil, short-sighted economic policies, and economic and political instability. The Agency's central environmental objective is to promote environmentally sound, long-term economic growth by assisting developing countries to conserve and protect the environment and manage their exploited resources for sustainable yields.

A salient example of the types of activities supported by A.I.D. to achieve this objective is the Regional Integrated Pest Management Project in Central America. This project strengthens national and regional capabilities for integrated pest management, the control of pests that destroy crops using a variety of techniques that minimize application of chemical pesticides. As a result farmers can cut production costs while maintaining or increasing yields. In addition to increasing income and improving sustainability, a reduction in pesticide use also has the potential to improve local water quality and improve health by reducing exposure to pesticides.

This integrated strategy for achieving broad-based and sustainable economic growth and improving the quality of life in developing countries is reflected in our FY 1989 Request.

FY 1989 Request

For the FY 1989 bilateral economic assistance programs, A.I.D. is requesting an authorization and appropriation of $5,485,651,000 for Development Assistance (DA) and the Economic Support Fund (ESF).

The FY 1989 request reflects agreement between the Administration and the Congress on overall levels set in the bipartisan budget summit. Although essentially straightlined the FY 1989 budget reflects slight increases in ESF, the Education and Human Resources account (Section 105) and the Private Sector, Environment and Energy (Section 106) account. Critical ESF funds in a number of base rights and Caribbean, Central American and Andean countries were cut or eliminated in FY 1988. Some funding has been restored for the Caribbean and Andean countries in the FY 1989 request. The Education and 106 accounts are particularly important to our ability to continue certain priorities which the Congress shares -- in the case of education; basic education efforts and participant and regional training; in the case of Section 106 -- to permit continued support of PVOs, funding for energy, environment and private sector development activities.

The FY 1989 Request reflects a significant effort on our part to take fully into account Congressional concerns as to the appropriate mix of programs within that agreed ceiling, as reflected in the FY 1988 Continuing Resolution. The resulting budget request for FY 1989, we hope, will persuade Congress to provide the Administration a greater degree of flexibility in the programming of funds in FY 1989 as a result of agreement on the basic priorities of the foreign assistance program.

Development Fund for Africa

For FY 1989, A.I.D. is requesting $510 million for the Development Fund for Africa (DFA). In FY 1988 Congress approved the Administration's request for a special funding mechanism for Sub-Saharan Africa to replace the traditional functional account divisions (as well as the Sahel Development Program account) and provide for greater flexibility in addressing the complex problems that continue to beset that continent. We believe that this Fund might also be a forerunner of the future direction for A.I.D. overall.

With the establishment of the Development Fund for Africa, A.I.D. has the latitude it needs for a broad-based growth strategy. We intend to use this flexibility to make our program more performance-based by shifting resources to countries and programs where results are being achieved and to integrate non-project and project resources in a more coherent package. In an effort to prioritize, the FY 1989 request is based on a further shift in resources toward the more populous countries, the poorer countries and those that are most committed to creating an environment in which growth and development can take place.

## Other Functional Development Assistance

The Agency's FY 1989 request for the Functional Development Assistance program outside of Africa totals $1.140 billion. The comparable FY 1988 appropriated level is $1.161 billion.

## Agriculture, Rural Development and Nutrition

An appropriation of $461,062,000 (not including agriculture activities funded under the Development Fund for Africa) is requested in FY 1989 for the Agriculture account compared to an FY 1988 appropriation of $488,715,000. A.I.D.'s FY 1989 ARDN program focuses on increasing the incomes of the poor majority and assuring the availability of food, while maintaining the natural resource base. This is based on recognition that efforts to address virtually all development problems, including hunger, infant mortality, disease, illiteracy and inadequate shelter will be frustrated unless rural incomes increase sufficiently to stimulate sustained economic growth. Activities are designed to: increase farm and non-farm employment and income; promote private agricultural marketing and distribution systems; develop sustainable improved agricultural technologies; encourage market-oriented, efficient low-cost production of food and other crops on small family farms; provide targeted food assistance to children and women in low income families and incorporate sound nutritional and food consumption principles into the design and implementation of agricultural and rural development activities.

Examples of activities we expect to fund in FY 1989 in Asia and the Near East and Latin America and the Caribbean include: Agricultural Research in Bangladesh ($3 million), Pakistan ($5 million), El Salvador ($5 million), and Honduras ($4.8 million); Irrigation Management and Training in India ($3 million) and Pakistan ($5 million); and forestry and watershed management in India ($5.6 million), Costa Rica ($5 million), and Haiti ($5.3 million).

## Population Planning

A.I.D. is requesting $190,940,000 for population assistance in FY 1989, not including population activities funded under the Development Fund for Africa. This compares to $197,940,000 appropriated for the population account in FY 1988.

Initial estimates for FY 1989 indicate that 80% of the population budget will be directed to family planning services. Eight percent is planned for data collection and policy analysis, six percent for operational and biomedical research and six percent for specific information and training initiatives.

In FY 1989, A.I.D.'s program will assist in improving the management and cost-effectiveness of public and PVO programs. We will continue to pursue private sector approaches to voluntary family planning, including assisting firms to add family planning to the health services offered to their employees. Natural Family Planning, the transfer of policy analysis technology to population and development planners, and the use of mass media channels to communicate messages about responsible parenthood remain an important part of the portfolio. As in the past, no A.I.D. funds will be provided to foreign non-governmental organizations that promote or perform abortions with funds from any source or to organizations that support or participate in the management of programs of coercive abortion or involuntary sterilization.

## Health

For FY 1989, A.I.D. requests a total of $210 million in funding for health-related activities under three separate accounts. Of this amount $114,000,000 is in the Health account. This amount is exclusive of health activities funded under the Development Fund for Africa. This compares to $119,000,000 appropriated in FY 1988.

In FY 1989, A.I.D. will support major health projects which contain child survival components in Bangladesh, Yemen, Nepal, and Honduras. The project in Honduras will also fund rural water and sanitation activities. In the Dominican Republic, Health funds will be used for a private sector health care project to create a private sector delivery system that provides basic health services, including child survival interventions.

Centrally-funded health projects include the Water and Sanitation for Health Project and the Vector Biology and Control Project. Health funds will support research on development and field testing of a malaria vaccine; on diarrheal disease; on tropical diseases, including onchocerciasis; on aging in LDCs; and operations research to improve management and cost effectiveness of child survival and other health programs.

## Child Survival Fund

A.I.D. is requesting $66,000,000 for the Child Survival

Fund in FY 1989, the same level as appropriated in FY 1988. The Child Survival Fund is used for oral rehydration therapy (ORT), immunization, birth spacing and focused child nutrition activities including breastfeeding. In addition, other interventions that contribute substantially to child survival in some countries, such as treatment of malaria and acute respiratory infection in young children, are supported with Child Survival funds.

In FY 1989, A.I.D. will support a competitive grants program for U.S.-based PVOs to undertake child survival projects in child survival emphasis countries. Additional funds will support the Rotary International PolioPlus immunization campaign. We will continue to support the Latin America and Caribbean regional effort to strengthen immunization programs, in cooperation with other donors (PAHO, UNICEF, Rotary, and the Inter-American Development Bank).

Several major centrally-funded activities will support child survival efforts worldwide. The Technology for Primary Health Care Project will provide technical assistance and logistical and financial support for ORT and immunization programs, as well as assistance in health care financing. Child Survival funds will support major bilateral projects in several child survival emphasis countries in FY 1989, including Pakistan, India, Bangladesh, Peru and Honduras.

## AIDS Prevention and Control

For AIDS Prevention and Control $30 million is requested. This funding will support the WHO Global Program for AIDS ($15 million); funding for LAC ($3 million); and centrally funded AIDS projects at $12 million. Funds will be used for the global AIDs technical support project to provide short and long-term technical assistance, training, operations research and commodities and equipment to countries on request in Africa, Asia and the Near East and Latin America and the Caribbean. Continuing database and modeling activities and condoms for AIDS prevention will also be supported. Direct bilateral and regional AIDS prevention and control activities will continue to be supported under the Development Fund for Africa.

Education and Human Resources Development

A.I.D. is requesting $129,541,000 for FY 1989 Education and Human Resources programs, exclusive of those funded under the Development Fund for Africa. This compares to $117,000,000 appropriated for this account in FY 1988.

About 40% of the request will support training for administrators, managers, scientists and technicians. About 30% supports elementary, secondary and adult education, 9% vocational/technical training and 7% labor programs. The balance supports planning and research, PVO programs, Women-in-Development, and other human resources development activities.

About 53% of the FY 1989 request will support programs in Latin America and the Caribbean, where there is a major emphasis on participant training as well as attention to strengthening basic schooling and skills training systems. Approximately 39% will support participant training, education, labor and PVO activities in Asia and the Near East. The remainder of the request, about 8%, will provide central bureau support for research and development, evaluations, administration of participant training, Women-In-Development and PVO programs.

Private Sector, Environment and Energy

A.I.D. is requesting $135,957,000 in FY 1989 for the 106 account, not including $8,662,000 for the Office of the Science Advisor. This compares to $129,371,000 appropriated in FY 1988. Neither year includes programs funded under the Development Fund for Africa.

The 106 Account provides assistance to stimulate sustained economic growth by supporting the development of market-oriented economies and by mobilizing developing country human and capital resources. This account provides funding for activities designed to encourage the adoption of sound economic policies which stimulate private enterprise, mobilize domestic and foreign capital, and encourage the privatization of production and service activities which can most efficiently be performed outside of the public sector. It also assists countries in meeting their long-term energy needs and in addressing environmental problems in urban areas. The flexibility of 106 account funds has been invaluable to A.I.D.'s privatization initiative. The presence of an economic and political climate that encourages individual productivity, human rights and the management of natural resources is essential to long term sustainable economic growth.

Unlike the other more narrowly focused functional accounts which are designed to address specific development problems related to population, health, agriculture or education, the 106 account supports programs that provide the foundation required to sustain and expand the output of goods and services in all economic and social sectors. Thus, activities supported by the 106 Account complement the more targeted assistance provided by the other functional accounts.

Specifically, categories of activities funded under this account include (1) support for private enterprise development and efforts to reform government policies and institutions; (2) research and technical assistance activities to alleviate energy constraints to development; (3) the promotion of human rights and democratic initiatives; (4) support for the activities of private and voluntary organizations and cooperatives; and (5) environmental activities in urban areas. These activities together with funding for policy reform efforts and the program development and evaluation activities of regional bureaus and field missions account for about 80% of funding in this account.

In addition to supporting economic and political policies the 106 account also assists countries to meet their long-term energy needs. Energy is essential for development. Developing countries can not expand their economies without adequate affordable and reliable supplies of energy services. Agriculture, industry, transportation, commercial activities and the provision of many social services depend on energy. Without increases in energy services, political and economic stability is threatened, private entrepreneurship lags, and the development engine slows dramatically.

The 106 account makes a small but significant contribution to A.I.D.'s environmental activities through support of urban environmental activities. Economic growth is inextricably linked with a country's natural resource base and environment. Protecting the environment and managing natural resources assure a supply of raw materials and the maintenance of environmental systems that are necessary for sustainable development. Activities funded through 106 help developing countries improve regulation of hazardous chemicals and promote industrial health and safety.

Projects and activities which will receive funding from the 106 account in FY 1989 include an Industrial Production Technology project in the Dominican Republic to expand the production capabilities of small and medium-sized enterprises. The project will rely upon both the International Executive Service Corps and commercial banks. In El Salvador a Privatization project will provide technical assistance, training, and other support to the Government of El Salvador to help it in the privatization of government-owned enterprises. The Rural Electrification Project will continue to strengthen the institutional and technical base needed to reach the 85% of rural Central Americans who now lack access to electricity. The Energy Policy Development and Conservation Project will support pre-feasibility studies in economically viable systems, such as clean coal technology and energy efficiency and will improve the management of environmental impacts and risks associated with energy production. The Environmental Planning and Management Project strengthens the capabilities of developing country institutions to better manage and conserve their natural resources for sustainable development.

## Economic Support Fund

For FY 1989, A.I.D. is requesting an appropriation of $3.281 billion for the Economic Support Fund (ESF). The request is up only slightly from the FY 1988 appropriated level of $3.201 billion. The increase is necessary in view of serious cuts we were forced to take in this account in FY 1988. In Central America, Jamaica and the Dominican Republic we have restored support we were forced to eliminate in FY 1988 which had funded economic reform, expansion of the private sector and continued participation in the Caribbean Basin Initiative. Portugal and Turkey were cut in FY 1988, and our FY 1989 budget includes minimum funds for these base rights countries. This request will increase funding for Andean countries to permit support for struggling economies and to support narcotics control efforts. Key elements of the FY 1989 ESF request include: continued efforts to achieve peace and stability in the Middle East through economic aid for Israel, Egypt, Jordan, the West Bank and Gaza and regional cooperation activities among Israel, Egypt and other neighboring countries; economic assistance to base rights and military access countries such as the Philippines, Turkey, Portugal and several in Africa; economic reform in the Dominican Republic and Jamaica; assistance to Central American democracies for the achievement of economic stability and growth and strengthening their democratic institutions and respect of human rights.

## Operating Expenses

For FY 1989, A.I.D. requests $414,000,000 in new budget authority for its Operating Expense (OE) appropriation. This represents an increase of $8.0 million over the FY 1988 appropriation and a reduction of $12 million from the FY 1988 request. The FY 1989 request includes less than the amount necessary to cover inflation and the recent rapid increase in costs, especially in Africa, as a result of the declining value of the dollar. Currency devaluations have a major impact on our ability to cover the administrative costs of operating overseas. A.I.D. is looking for ways to realize savings through management improvements and changes in the way the Agency conducts its overseas program.

## The Challenge for the Future - An Agenda for the 1990's

Despite striking progress by some countries, economic growth is stagnating in many developing countries. In some countries the economic base is actually deteriorating, and individual incomes are declining, as a function of negative growth rates over the past five to ten years. Neither educated guesses nor straight-line projections of past trends really tell us what will happen in the future. Nevertheless, projections can suggest quite vividly what could occur if existing trends persist. A continuation of recent and current rates of economic growth in developing countries will result in an even greater gap between their levels of income and those of developed countries. One thing is certain: without growth, the quality of life in developing countries is not going to improve on a sustainable basis.

Targeted development assistance programs have helped to improve life expectancy in these situations, and to increase the likelihood that children will be protected against major diseases and have a minimal education. These gains are important, but in and of themselves, they are not enough and under stagnating or deteriorating economic conditions, they may not be sustainable.

Despite what we know about the common threads that tie together the economic growth and development experiences of diverse countries, and about what are the most important elements of an economic growth strategy, there is much that we do not know. The critical point is that each country is unique and the type and timing of the interventions to implement a growth strategy must be tailor made for each country situation.

The country-by-country approach to development entails not only some risk taking and experimentation, but also flexibility in where, when and what type of assistance we provide. Flexibility in our funding allows us to invest in the right opportunities at the right time and to target our assistance based on actual country performance.

The Development Fund for Africa reflects the kind of mechanism that is best suited to the implementation of such a strategy. It is designed to implement programs that integrate structural economic reforms with specific assistance projects in traditional development areas. With the Fund we are able to follow up on successful policy dialogue undertakings by supporting positive performance in a particular country.

## A Strategy for Advanced Developing Countries

Our investment must not stop with the very poor countries, although it will be different in those which have reached a certain level of development. As a result of 25 years of foreign assistance, there are now a number of advanced developing countries (ADCs) that no longer need the type of economic assistance they once received from A.I.D. Their relationship with the U.S. has not ended, but it has changed.

We are now developing a strategy that will be the basis for more productive bilateral relationships between the U.S. and a selected group of advanced developing countries, such as Brazil and Mexico. In addition we will focus on assistance strategies to help those countries approaching ADC status do so more quickly, while laying a strong institutional foundation for a mature ADC relationship. These new relationships would facilitate the eventual transition from traditional U.S. economic assistance programs to a different type of assistance designed to preserve and extend valuable bilateral institutional linkages. We have already initiated ADC programs in several Latin American countries, which strengthen the ties established earlier between U.S. and host country institutions while securing nongovernmental funding to support common efforts in the exchange of science and technology.

The evolution from a relationship dominated by an economic assistance program to one that is varied and complex is not easy, but now is the appropriate time to develop such a strategy. We want to consult Congress on this initiative at the appropriate time.

## Conclusion

Although the remaining challenges of economic development are sobering, foreign assistance has brought substantial accomplishments as well as a wealth of experience upon which to base investments in future progress.

We need to forge a new consensus on foreign assistance that will allow us to meet the particular needs of individual developing countries that will at the same time unite the Congress, the Executive Branch and the people of America behind foreign policy objectives and foreign aid. I look forward to working with you in this effort.

## OPERATING EXPENSES

Senator INOUYE. In looking over your request, I notice that for operating expenses there is an increase of $8 million, which would make this the third largest account in your portfolio.

If this amount is not granted, what will be the outcome?

Ambassador WOODS. Well, Senator, if you delve deeply into our operating expense account you will see that in fiscal year 1988 we have been very restrained at the $406 million level. The funds that are requested for fiscal year 1989 also represent a very restrained OE account. The proposed increase is less than the rate of inflation and, as I indicated, would primarily be used to fund the January 1988 pay increase which we, of course, have to fund for all our employees, and the new FERS retirement system.

It would probably mean a reduction in the number of people working for the agency if we were not funded at our request level.

Senator INOUYE. So you consider the request to be reasonable?

Ambassador WOODS. Very reasonable. As I said, it is $12 million below the fiscal year 1988 request. Actually, we are quite pleased that we have been able to squeeze it down to that number. It has taken some effort to do so.

Senator INOUYE. If you had to close down activities, where do you close? Overseas missions?

Ambassador WOODS. In point of fact, we currently have plans to close a number of overseas missions merely to stay inside the parameters of the restricted budget which we have requested. Some of the smaller missions in Africa are being examined in that regard. For example, we closed the mission in Djibouti last year. We feel that we have a very tight OE budget request.

### USAID/CAIRO PERSONNEL LEVELS

Senator INOUYE. Recently we received letters from American businessmen doing business in Egypt telling us about excessive bureaucracy in your program in Egypt; for example, that presently there are more than 300 people handling the program which was previously administered by far, far fewer than that.

The question is do you need all of this to get your job done there?

Ambassador WOODS. Well, Egypt is by far and away our largest A.I.D. mission. The number of employees we have there, I think, are needed to support an $800 million annual program with a pipeline of $2.23 billion. Many of those people are not only working on projects; they also ensure accountability for those projects.

Senator INOUYE. How do you account for this large pipeline approved but unspent?

Ambassador WOODS. In a sense, there are both good and bad aspects to a pipeline. A good pipeline reflects a portfolio of projects that are proceeding well, but which will take multiple years to fully disburse. These funds are disbursed as the project moves forward in a normal manner.

If we are doing a water project, for example, which takes 5 years for construction, the funds have already been obligated and will be disbursed as the project proceeds.

A bad pipeline reflects projects which are just not spending-out at the anticipated or planned rate and have bogged-down to some degree or another.

In the case of Egypt, another factor has affected the pipeline; as a result of congressionally mandated restrictions on the amount of cash transfer to Egypt, more funds have had to be projectized.

When Egypt's cash transfer level was capped at $115 million, the amount of money that had to be projectized increased.

As a consequence of A.I.D.'s efforts to projectize more funds, the pipeline grew somewhat.

### MANAGEMENT STUDIES

Senator INOUYE. Last year we directed A.I.D. to make nine management studies. We have received them, but it seems to be uniform in one sense; that there is nothing wrong.

For example, the project involvement office is described as having clientele who are "almost universally positive in their praise of this work" and described as an organization free of any significant turf issues and possesessing strong management at all levels.

The assessment team was impressed with the near unanimity of praise and respect to the quantity and quality of work done by the Office of Project Development.

Is that what is really happening? It sounds too good to be true. I would like to give this same report to my staff, but I find it very difficult to do that.

Ambassador WOODS. I would hesitate to say that everything A.I.D. does is perfect. It certainly is not. I think the assessment teams offered a balanced assessment, and there were criticisms and improvements indicated by the assessment teams. They examined nine offices and we are taking their recommendations seriously and making changes, as appropriate, in the activities of those offices. These changes are presently moving forward.

I would not have characterized the assessments as being entirely positive. Certainly there were positive comments in them, and I agree that there are a lot of positive things that we do in A.I.D.

There were also suggestions that there are staffing deficiencies, managerial deficiencies, and programmatic deficiencies which I think need to be corrected and which we are looking at and working on.

Senator INOUYE. With all of these deficiencies, no one had any complaints?

Ambassador WOODS. No. A number of problems were identified and, in one instance, the manager of one of the nine offices felt that the assessment was not totally fair and they provided minority views which I think was appropriate.

### INTRODUCTION OF ASSOCIATES

If I may, Senator, I forgot to introduce the other witnesses here with me at the table. If I may take the opportunity to do that now.

Senator INOUYE. Go ahead.

Ambassador WOODS. On my far right is Mr. Robert Halligan, who is Assistant Administrator for Financial Management and Personnel.

On his left is Mr. Michael Usnick, who is the Acting Controller.

On my right is Richard Bissell, who is the Assistant Administrator for Program and Policy Coordination.

On my far left is Mr. Howard Minners, who is our Science Advisor.

To his right is Mr. Tom McKay, who is the Acting Food for Peace Assistant Administrator. Right now, the Acting Assistant Administrator is out of the city, and Mr. McKay runs our private voluntary organization program.

On my immediate left is Dr. Nyle Brady, who is the Senior Assistant Administrator for Science and Technology.

I apologize to the gentlemen here for not having introduced them earlier.

### FILE RELIABILITY

Senator INOUYE. The report does say that project development files are considered too unreliable and incomplete, and this results in inefficiencies and redundancies.

Can you provide us with examples of where the official files have been found to be unreliable and incomplete and how it has harmed the effectiveness of your operation?

Ambassador WOODS. Am I correct that we are talking about the Africa Bureau Project Development Office here?

Senator INOUYE. The Asia and Near East.

Ambassador WOODS. I will have to supply those specifics for the record.

[The information follows:]

### RELIABILITY OF FILES OF THE BUREAU FOR ASIA AND NEAR EAST OFFICE OF PROJECT DEVELOPMENT [ANE/PD]

The Bureau for Asia and Near East, Office of Project Development [ANE/PD] is the repository for the official project files of the ANE Bureau. The assessment team received comments concerning two kinds of problems with the PD files. The first concerned occasions when relevant documents were not found in the file. This was perceived to occur as the result of the loss or misfiling of documents. Those interviewed felt that the primary reason for this kind of problem was the frequent turnover and low skill levels of the responsible file clerks. This was considered to be the result of the low pay levels offered by A.I.D. to such personnel. Because pay levels are established as a factor of Civil Service regulations, the resolution of issues concerning lesser qualified staff or high turnover is not felt to be imminent. Incomplete files also were believed to result from incorrect filing instructions provided by PD officers and USAID field missions which did not always send documentation to central files in PD. A recent example of a missing document problem was a memorandum of understanding between ASEAN and its governing host governments. Replacement copies were requested from the field. Similarly, several grant agreements for A.I.D. projects with the Government of Tunisia were found to be missing. These, too, were requested from the field. The impact of lost or missing documents was reflected in the occurrence of relatively minor delays in the completion of project-related actions.

The second category of ANE/PD file-related problems is related to the microfiche system used by the Agency for the reduction of the volume of paper retained. Problems occur because it is often difficult to read microfiche files. In addition, paper copies of microfiche documents are also sometimes unclear and occasionally difficult to read. Finally, microfiche does not permit the ready comparison of documents that is often necessary. Microfiche problems tend to slow down more than they interrupt the work process. Examples were provided to the assessment team of unclear microfiche copies of cables from USAID/Pakistan concerning project implementation issues.

As noted in the ANE/PD assessment report, occasional central file problems have resulted in the creation of backup files on subjects of current interest and priority. The creation of these files has caused only minimal additional workload, but they do take up unnecessary file cabinet space.

Alleviation of the main causes of the problem—recruitment and retention of qualified file clerks and the use of a more modern electronic filing sysltem—are Agency-wide issues. These issues have been voiced to persons outside the ANE Bureau, who are also constrained by budget limitations and OPM regulations. In addition, ANE/PD professional and clerical staff (especially recent arrivals) have been given training and written instructions on how to use the file system properly and to minimize filing errors.

### PREPARED STATEMENT OF SENATOR D'AMATO

Senator INOUYE. I have many others, but let me call upon Senator D'Amato.

Senator D'AMATO. Thank you, Mr. Chairman. In the interest of time, I would ask that my opening statement be included in the record as if given in its entirety.

[The statement follows:]

### PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome Alan Woods, the Administrator of the Agency for International Development, before our committee today to discuss foreign economic assistance programs.

Critical budget reviews have reduced foreign economic aid levels in recent years. The Gramm-Rudman-Hollings legislation coupled with concerns over a growing foreign aid package has constrained congressional support for bilateral aid programs.

The administration has requested $5.5 billion for A.I.D. bilateral economic assistance programs for fiscal year 1989. This is only $20 million more than appropriated for this fiscal year. The total multilateral and bilateral request for assistance is $8.7 billion if the Public Law 480 Food for Peace Program is included.

I am concerned about the fiscal year 1989 request of only $30 million for the American Schools and Hospitals Abroad Program. Although it is $10 million above the administration's request for this account for fiscal year 1988, it is still well below this year's level of $40 million. For years, you and the administration have tried to cut this program, and each year Congress is forced to restore proper funding levels.

On March 23, Senator DeConcini and I, along with many other members of this committee, introduce the Omnibus Anti-Drug Abuse Act of 1988. A component of this legislation would provide A.I.D. with $200 million in economic assistance for nations eradicating 15 percent of drug crops in the first year. These nations would be eligible for $600 million over 3 years if 40 percent of the drug crops were eradicated.

A.I.D. can play a vital role in the comprehensive war on drugs. I hope that I can count on your support for this important provision in the Omnibus Anti-Drug Abuse Act.

I am also concerned about the food assistance we are providing the poor people of Panama. I have heard reports that Cuba is providing medicine and other essentials to the needy of Panama. It is imperative that the United States, which has been the architect of the sanctions causing much of the economic turmoil in Panama, help Panamanians as much as possible and with the highest profile as possible. If not, it will be only a matter of time before General Noriega will gain the support of the poorest Panamanians. The United States must provide large scale food assistance to the Panamanians in need.

Thank you, Mr. Chairman.

### ANTI-DRUG ABUSE ACT

Senator D'AMATO. Mr. Chairman, I have just one question for our administrator. It is good to see him, and I can share with you, Mr. Chairman, that I think that Alan Woods has brought a vigorous approach to A.I.D., one that is welcome, and I look forward, as I know you do, to working with him.

Mr. Administrator, I have a copy of a letter from A.I.D. to OMB concerning S. 2205, the Anti-Drug Abuse Act of 1988, which most members of this subcommittee have cosponsored. I think we have 70 cosponsors in all in the Senate.

In this letter, A.I.D. seems to support in principle the provisions of S. 2205 creating a new economic incentive program for drug producing countries that eradicate drug crops. Let me quote part of the letter.

You say, "In principle, we believe that a shift from a program that solely penalizes poor performance to one that provides incentives for good performance moves in the right direction."

The letter then goes on to review some problems that your agency has with some of the specifics of our bill. It says, for example, "A.I.D. is concerned that any appropriation to finance the drug incentive program would be earmarked from funds previously appropriated to the international affairs account."

Now, my question to you is, first of all, it would seem that what you are saying is that you like the principle of encouraging cooperation in the drug eradication programs by economic assistance, not by simply just penalizing countries who do not.

I am appreciative of that, but my question would be if Congress appropriates the $200 million that we provide for in this segment of the bill for this program without taking it from other A.I.D. programs, would you be willing and able to undertake this initiative?

Ambassador WOODS. I do not think there is any question about A.I.D. being prepared to undertake this initiative. It is an attractive proposal.

What we would be concerned about, as we were trying to indicate in our letter to the OMB, is that if we take with one hand and give back with the other, there is not much incentive for countries to be responsive.

Senator D'AMATO. You are talking about new money for this new initiative. You would be ready and willing to be supportive and feel you could administer that?

Ambassador WOODS. Within the confines of that which the administration considers we can afford, yes.

Senator D'AMATO. Thank you very much. It is good to see you again. Thank you, Mr. Chairman.

Senator INOUYE. Thank you.

Senator Nickles.

Senator NICKLES. Mr. Chairman, thank you, and I welcome Mr. Woods. I have a few questions.

## REQUEST LEVELS

One, your budget is $5.4 billion. Is that comparable to last year? How does that compare to last year?

Ambassador WOODS. It is virtually a straight line from last year and includes the 1.9-percent increase recommended by the budget summit agreement.

### ETHIOPIA

Senator NICKLES. There has been reports that in Ethiopia the government was not allowing private agencies' food assistance into those tribes, into the refugee camps.

Is that still accurate?

Ambassador WOODS. I am sorry to say that these reports are accurate, Senator. We have a very difficult situation in Ethiopia. The Government of Ethiopia has removed the foreign relief workers from the northern two provinces where there is ongoing fighting. The relief workers were prepared to stay. In fact, in the instance of the International Red Cross, they are set up to operate in that kind of circumstance.

I should add that about 40 percent of the famine-affected people are in those northern two provinces. Our programs continue to operate normally in the rest of the country where about 60 percent of the people are living, but if we cannot get food to people in those northern two provinces over the near term, we are going to begin to see the same kind of starvation which occurred in the earlier famine. Thus far, we have been very successful in avoiding that.

Senator NICKLES. Are we looking at as much as 2 million people facing possible starvation in these camps?

Ambassador WOODS. That is exactly the number that I have. It would be 2 million people.

Senator NICKLES. Are those two northern provinces or districts in Ethiopia very much in the battle area, the war area?

Ambassador WOODS. What you have in Ethiopia is two rebel groups, one in Eritrea and one in Tigray, which are not associated with one another but are basically Eritrean nationals and Tigrayan nationals.

It is a complicated situation because, as you know, the Ethiopian government is a Marxist government, and each of the rebel groups are Marxist rebel groups. The issue is really between the Tigrayan and Eritrean nationalists.

We have tried to work in those areas, but it is hard to say at any given moment that a particular province is controlled by one group or another, because there is an ongoing battle situation.

Senator NICKLES. So the Ethiopian government basically has said relief officials, get out?

Ambassador WOODS. They told the relief officials to "get out," and in some instances virtually walked them to and put them on the airplanes from their hotel rooms or wherever.

Senator NICKLES. So they abandoned the camps.

### FORCED RESETTLEMENT

What about the forced resettlement?

Ambassador WOODS. Let me come back to the resettlement issue, because you have mentioned camps. Generally speaking, we have been able to avoid camps in our response to the famine this year because we have enough food at distribution points to give to famine-affected people. They have been picking up the food and going back to their villages.

What we now fear will happen and which we understand in Asmara is already happening is that they are beginning to form camps. We understand that most of the people in these camps at this moment are not Ethiopian peasants so much as they are government officials and Communist party members who have been driven out of the conflict areas between the rebel groups and the Ethiopian government. Obviously, this has presented a problem.

At this time we have had few confirmed reports of forced resettlement. There has been some resettlement activity of which we are aware, but up to this moment it has been very limited. Resettlement was a major issue in the previous famine; evidence of a similar program has not been quite so clear in this drought.

Since December when I visited Ethiopia, the families which have been resettled literally number in the hundreds, which suggests that little forced resettlement has been undertaken to date.

There is one report that is inconsistent with that, but we have not been able to confirm it.

Senator NICKLES. I was going to ask you if you concur or disagree with the report that was in the Washington Post on February 12 that said Ethiopia is said to kill 20 people refusing resettlement?

Ambassador WOODS. That is the exact report to which I referred.

Senator NICKLES. Can you confirm that?

Ambassador WOODS. We have not been able to confirm that.

Senator NICKLES. Do you think the report is in error?

Ambassador WOODS. Not necessarily. We have just not been able to confirm it.

## PHILIPPINES WHEAT SALES

Senator NICKLES. On a different subject, and possibly your people that work with Public Law 480 know of this, there are some reports that A.I.D. officials were discouraging the government of the Philippines from concluding a sale with U.S. wheat.

Would you care to comment on that?

Ambassador WOODS. I think I am acquainted with the issue to which you refer.

There have been ongoing negotiations with the Philippines, as with other countries, regarding the commodities which they wish to have us provide under the Public Law 480 program. A substantial part of those negotiations involve policy issues pursued by Secretary Lyng when he was in the Philippines a few months ago.

In the process of these negotiations the Philippines shifted some of their priorities, as I understand it, from wheat to rice. This does not reflect a lower interest in Public Law 480 commodities, but a judgment on the Philippines' part of which commodities they most need.

Senator NICKLES. To be very direct, I think Congressman English has conducted a hearing, but the net effect of it was that he said that A.I.D. officials discouraged the Philippine government from purchasing U.S. wheat. They later concluded an agreement to buy wheat.

Ambassador WOODS. The description you just gave refers to a different circumstance than the one I was describing. The story that you described, regarding the subject of Congressman English's hearings, occurred, I believe, in 1986. I was talking about a more recent event.

The report that the Congressman issued as a result of Government Operations Committee hearings was recently released, but the hearings were actually held last spring.

### PHILIPPINE PURCHASE OF U.S. COMMODITIES

Senator NICKLES. That does not change the point. I do not care if it happened a year ago or this year. It bothers me if A.I.D. officials are discouraging Philippine purchases of U.S. commodities.

Ambassador WOODS. I do not have all the details on the results of those hearings. I will be glad to provide them for you.

Senator NICKLES. I would appreciate that.

[The information follows:]

### 1986 PHILIPPINES FOOD AID

Reports that A.I.D. officials in Manila discouraged Government of the Philippines [GOP] officials from purchasing U.S. wheat are not accurate. A complaint from the U.S. Wheat Associates alleges that unnecessary delays on the part of A.I.D. led to the purchase by Filipino flour millers of 30,000 metric tons of wheat from Canada, losing an important sale for U.S. farmers. However, examination of the record shows clearly that these complaints are not well founded.

The process of negotiating with the GOP and reaching agreement on three separate food aid programs in 1986 was indeed complex and time-consuming. A.I.D. concluded the first title I agreement providing $32.3 million in wheat in June 1986.

Shortly after this agreement was concluded, it was learned that President Aquino would visit the United States in September 1986. The administration initially agreed to try and accelerate negotiations on the fiscal year 1987 Public Law 480 Title I agreement to have it ready for signature during President Aquino's visit. However, the State Department and A.I.D. subsequently decided that it was desirable to try to increase the title I allocation to the Philippines beyond the $20 million planned at that time. The State Department and A.I.D. therefore decided to defer a new agreement pending congressional action on fiscal year 1987 funding.

A separate series of negotiations involved the provision of section 416 sugar quota compensation. This was the first time that such an agreement was negotiated for the Philippines, and there were a number of uncertainties and questions on all sides which slowed negotiations.

Given political considerations and the technical complexities, in none of these cases was the process of agreeing on food assistance unduly prolonged. Nor, as alleged in the English Report, are these examples of poor management of the food aid program. To the contrary, the self-help measures negotiated by our A.I.D. Mission in Manila have made important contributions to the policy reforms of the Aquino administration (such as deregulation of fertilizer imports and marketing, which contributed to a substantial decline in farm-gate fertilizer prices and a corresponding increase in fertilizer use).

### PHILIPPINES SUGAR CONSUMPTION

Senator NICKLES. One additional subject, and I may have a different viewpoint from the Chairman of the Committee on this, but I think last year we had an amendment that dealt with encouraging the consumption of Philippine sugar.

Would that be paid for by the reduction of commodities that would be going to the Philippines?

Ambassador Woods. No, it would not.

### UNDP NUCLEAR TECHNIQUES PROJECT

Senator Nickles. Well, I will not get into that now.

An additional question, the U.N. Development Program funded a program in Cuba during 1986 entitled Introduction of Nuclear Techniques for the National Economy.

Is this something that the United States should have helped to fund? Are you familiar with that project? Do you have your science advisors?

Ambassador Woods. I have my science advisor, but I doubt that they are any more aware of that program than I am. I would have to look into it and provide you information about that.

Senator Nickles. Looking at it as of September 30, 1986, $1.6 million project costs, United Nations Development Fund. I could not believe it when I saw that. Nuclear Techniques to the National Economy for Cuba.

Could you give me a response and find out about that?

Ambassador Woods. I would be glad to do that.

Senator Nickles. I would be happy to provide you with where we are getting that information, but I was disappointed to see that.

[The information follows:]

### United Nations Development Program Assistance to Cuba

As required by law, none of the funds provided by the United States to the United Nations Development Program [UNDP] shall be available for the U.S. proportionate share for programs for Cuba. Therefore, we deduct from our pledged contribution to UNDP the U.S. proportionate share of funds spent for UNDP program activities in Cuba.

### UNFPA AND CHINA

Senator Nickles. One additional question, the United Nations Family Planning Agency, is that still involved in the People's Republic of China family planning program?

Ambassador Woods. Yes, it is.

Senator Nickles. How much financially?

Ambassador Woods. $10 million annually through 1989. Their current 5-year program ends in 1989, and they will be negotiating a new agreement for another 5-year program.

Senator Kasten. Would you yield for just a minute because I have a question on that point, too, and we have a couple of statistics.

Senator Nickles. Certainly. Go ahead.

Senator Kasten. First of all, I think your statement says that no A.I.D. money will be provided to nongovernment organizations which promote, perform or participate in the management of programs involving coercive abortion or sterilization. Is that correct?

Ambassador Woods. That is correct.

Senator Kasten. That is your policy?

Ambassador WOODS. That is the policy of the U.S. Government, yes, sir.

Senator KASTEN. The difficulty we may have and that Senator Nickles is pointing out is that despite the struggle to withhold 1988 funds from UNFPA because of its participating in such programs, page 61 of the main volume of your CP shows a request for $20 million for UNFPA for 1989.

Now, either you must have reason to believe that things have changed or you are requesting that money notwithstanding the position that Congress has taken and, more importantly, that you took in your statement saying that no A.I.D. money will be provided to groups that perform, promote, or participate.

So this is inconsistent. First of all, why do you factor in the $20 million, which the Senator from Oklahoma is concerned about? Second, do you have contingent plans for that money if it is withheld from UNFPA again?

### U.S. CONTRIBUTION TO UNFPA

Ambassador WOODS. Yes; let me tell you what we have done here, and I think you will find it to be, in fact, consistent.

What we have done in our fiscal year 1989 request has been done in previous fiscal year requests.

Our request identifies funds as the U.S. contribution to UNFPA. This amount would constitute the U.S. contribution to UNFPA if either the UNFPA were no longer involved in the China Program or if the China Program changed in a manner which was consistent with our policy. We make separate judgments about these circumstances on an annual basis.

If it is decided that the funds cannot go to UNFPA, then they are reprogrammed to other volunteer family planning activities. That would be the case in 1989 as it was in 1988.

Senator KASTEN. I think what the Senator from Oklahoma is suggesting, and I will yield back to him, is that unless and until we know that UNFPA has made changes, we ought not to be putting money in any draft budget proposal, let alone something that you are sending up to Congress. You have the burden shifted, I think, the wrong way.

Congress has a position. You should not put the money in until either Congress changes its position, or UNFPA has changed its position.

### POSITIONS ON CHINA PROGRAM

Now, that is the final question. Has the UNFPA changed its position with regard to the programs in China?

Ambassador WOODS. The UNFPA has not changed its position with regard to the programs in China.

With regard to China's programs, as a new Administrator one of the things that I have requested is information on the China Program, because I have not had the opportunity to become fully acquainted with this issue and make a judgment with regard to fiscal year 1988.

At this point in time, I see no indication that either the UNFPA or the China Program has changed, but I have not had a chance to fully examine the program. I intend to do that.

Senator NICKLES. For your information, I will be happy to help you become educated, but I have seen articles and even a copy of a letter that was sent to Chinese citizens residing in the United States that was very coercive toward abortions. I do not think their policy has changed, and I think if you are requesting funding for the People's Republic of China, it is very inconsistent with what Congress has stated, and I would be very upset by that.

I do not know that it is necessary for us to get involved in this time and time again. So our point is made. If you would like some information to help you make an assessment, we would be happy to provide that.

Ambassador WOODS. I have seen the information which I believe you are referring to, Senator, as has appeared in the newspapers. I do feel that I have an obligation to look at this issue in an orderly manner, and that is what I am trying to do.

Senator NICKLES. I also concur with what Senator Kasten has said. I would think that the proper way would be not to have money that we are going to request, how much?

Ambassador WOODS. $20 million.

Senator NICKLES. $20 million, well, we will spend it here unless we disallow it. I think it should be the other way around, that it would be zero unless they could prove or you could prove that they have made a significant change in policy, which I do not think is the case.

Thank you, Mr. Chairman.

Senator INOUYE. Thank you very much.

Senator Kasten.

## REPROGRAMMING OF FUNDS

Senator KASTEN. Let me just follow up. Do you have a plan to reprogram that $20 million if the UNFPA has not changed its policy toward the coercive practices in China?

Ambassador WOODS. Is the plan developed fully?

Mr. BRADY. In a year's time, some changes can occur, and over the last 3 years we have developed some general principles we use to make such determinations.

Ambassador WOODS. It would be reprogrammed to voluntary family planning programs.

Senator KASTEN. It is the same concept we have always followed. We are not opposed to family planning. We simply would take those dollars and give them to groups that are, in fact, operating within the general guidelines established by this administration and the Congress.

It seems to me that it should have started that way, and then if you show that UNFPA policy has changed, you would fund them. I think you have the burden going the wrong way. By putting money in there, it is implying that you with your budget request are either supporting overturning the conditions that Congress has established or that UNFPA has made a significant change.

And now you tell us that your information right now is that neither is the case.

Ambassador WOODS. That is correct.

## ENVIRONMENT

Senator KASTEN. Let me switch to a couple of environmental questions.

You have environmental assessment regulations which we have put in place in part with your help and with the support of Peter McPherson and, I think, the overall administration.

How rigorously are your environmental assessment regulations being implemented, and what actions are you taking to ensure that these regulations are actually a key part of project review and are now used throughout the project review cycle?

Specifically, can you demonstrate to our subcommittee that these regulations are being carried out in a timely manner so that necessary adjustments can be made relatively earlier in the project cycle?

Ambassador WOODS. You have correctly identified something which, in my mind, is the most important part of our environmental activities. I refer to the review of the environmental impact on every single project that we fund and not just environmental projects.

At this point, every project is required to have an initial environmental evaluation, and that requirement seems to be working pretty well. We have spent a lot of time reviewing our activities with interested environmental groups, and I have had the opportunity to meet with them several times. They appear to be reasonably pleased with our process.

Is there room for improvement? There always is in any endeavor, and we are always looking for ways to improve.

## PROJECT CYCLE QUESTION

Senator KASTEN. Could you specifically address this part of the project cycle question as opposed to some staff group that is not part of the process?

Ambassador WOODS. As I say, the most important part of the process in terms of ensuring the environmental soundness of our projects is when a project is designed. The environmental impact of our proposed activities must be taken into account. This step is key to environmental safeguards, it seems to me.

Senator KASTEN. Both the chairman and I have a question as to the questionable aspects of the management of our A.I.D. program in Costa Rica. I am sure you are prepared to respond to that, but let me just put that off for a second and then we will return to it.

## CARBON DIOXIDE LOADING OF ATMOSPHERE

On the environment, one of the major sources of carbon dioxide loading in the atmosphere from developing countries is from the burning of tropical forest tracts. Most simply put, we can think of a tree as a standing column of carbon basically. By burning that tree, we transfer that carbon from the ground into the atmosphere.

How might A.I.D. operate a carbon offset program to reduce carbon dioxide loading in response to new projects which are increasing $CO_2$ emissions?

Are there any possibilities that we might be able to work out some kind of a balance here, because clearly a number of A.I.D. projects are loading the atmosphere, particularly in some of the lesser developed countries, with $CO_2$.

Ambassador WOODS. First of all, let me say that we are, through our projects, trying to educate farmers in developing countries that slash and burn agriculture, which is basically what you are describing, is counterproductive over the long run and in the short term as well.

In that context, we have recently looked at ideas for addressing the $CO_2$ problem through global reforestation, and that report was issued in February of this year.

Senator KASTEN. That is what I was suggesting. If we ended up in a situation where we have a new coal-fired electrical generating plant, we would at the same time plant 1,000 acres, in effect understanding what the coal is going to do and balance it off. Maybe suggestions like that are included in this kind of a report.

Ambassador WOODS. They are.

Senator KASTEN. Is there any serious thought being given to this kind of overall direction?

Ambassador WOODS. Yes; and I would like the Senior Assistant Administrator for Science and Technology to describe where we are going in some of those programs.

Dr. BRADY. Just one comment. In addition to the programs that we have, Senator, that urge reforestation, another activity that we think will reduce the increases of carbon dioxide in the atmosphere, is to provide alternatives to slash and burn.

Most of these poor people do not slash and burn because they like to see smoke. It is the only way that they can clear land and produce food for themselves.

We are trying to develop alternatives that will keep them in place instead of moving from area to area and burning the forests. There are some approaches that we think have been successful; the so-called alley cropping system where you have your food crops in one alley and run alongside fast-growing trees.

This could greatly reduce slashing and burning, which is probably your biggest source of carbon dioxide coming from these forest areas.

Senator KASTEN. I have not had an opportunity to review that report, and I will do so.

But we are anxious that the environment be considered part of the overall project cycle. I think that through our A.I.D. efforts we could really be leaders in changing direction in some of these developing countries, and they would not repeat the mistakes that we have made in certain of these areas ourselves.

Ambassador WOODS. Senator, if I could just add something, I had a personal experience that I think might be of interest to you and members of the committee. I think it demonstrates the difficulty that some of our people have when they try to operate these programs.

While in Pakistan, one of the things I asked to do while there was to go out and visit some peasant farmers. It turns out that the person in our mission in Pakistan that took me out was a forester. While we were there visiting with the farmers about a whole range of things, he asked one farmer if he would like some trees which we could supply to him. He said no.

The forester explained that the trees would be good for the farmer, and described a number of ways in which planting trees would be beneficial to his farming. The farmer said no, he was not really interested.

He approached this farmer three or four different times, and only when he suggested to the farmer that the trees might provide forage to feed his animals was the farmer prepared to even consider the idea of planting additional trees.

Here at the micro level, I began to have some appreciation for the difficulty that our folks operating out in the field have in dealing one-on-one with this problem.

I am not suggesting we should not do it. Quite the contrary, I think it is very important to do it, but it did give me a real appreciation of the difficulty in convincing people who do not understand the range of benefits involved and how important it is.

Senator KASTEN. Mr. Chairman, thank you. I know we are not keeping time, but I have used a significant amount.

### COSTA RICA—SCHOLARSHIPS

Senator INOUYE. Thank you very much.

Mr. Administrator, you are aware that the two of us sitting here have been very supportive of A.I.D., and you also know that A.I.D. has been the target of most of the criticism levied against the government of the United States on a per-dollar basis.

So oftentimes we involve ourselves in what you might consider nitpicking, but these are the little things that give us the problems. It is not the big things. No one complains about the big programs.

So I would like to touch on Costa Rica. About a year ago, the inspector general reported to your office on some of the activities in Costa Rica and other things reported that on 17 separate occasions the mission there awarded scholarships to relatives of influential Costa Ricans or people who are not otherwise qualified to receive such.

Now, who approved these scholarships, the mission director?

Ambassador WOODS. Yes.

Senator INOUYE. Where is he now?

Ambassador WOODS. He is currently in a training program. He is not currently assigned to a mission.

Senator INOUYE. Is that your way of disciplining people?

Ambassador WOODS. No. The disciplinary process for people who have acted inappropriately, unethically or illegally, and I use the entire range of transgressions, follows a thorough investigation process which allows for due process.

I admit that the time which this process takes is frustratingly long, but at the same time it ensures that the rights of the individuals who have been accused are protected. That is what is going on with this case.

Senator Inouye. Reading the inspector general's report, one would get the impression that private citizens in Costa Rica were involved in this process.

What was the extent of their involvement?

Ambassador Woods. You are referring still to the scholarship program?

Senator Inouye. Right. Were they pressuring our mission?

Ambassador Woods. The report addresses a number of issues. There are indications that, in one instance, outside interests were pressuring the mission and in some instances these pressures came from the U.S. Ambassador in Costa Rica.

I think you need to put what has gone on there in a certain context, in that those issues identified by the Inspector General involve a large program which included a total of about 1,100 scholarships.

As we have delved into the issue of scholarships, we have identified some which, as you indicate and as the Inspector General indicated, were inappropriate. We have at this time made an effort to obtain compensation from individuals to cover the costs of some of the scholarships provided.

### SALARY SUPPLEMENTS

Senator Inouye. Last year your predecessor testified that he and the IG became aware of the practice of A.I.D. to supplement the payment of foreign officials, and I will not name the country.

The justification given for this practice was that it was necessary to attract qualified public servants from high-paying private sector posts.

Do you consider this to be a legal method of using our money?

Ambassador Woods. We have just gone through a lengthy and, for me, arduous review of the issue of pay supplements.

My position, and I spent quite a bit of time dealing with the Inspector General on this issue, is that we now have a policy which we think makes sense. First of all, there are legitimate circumstances in which pay supplements might be necessary. Let me give you an example.

A doctor from a developing country in which we are trying to develop a rural health program wants to live in the developed world because he just cannot make the kind of income for his family that he would make practicing in a rural area in his country.

We might find this type of circumstance: One might supplement that doctor's income in order to have him operate in less than optimal environment.

Senator Inouye. If I may interrupt on that last point, if you do carry out the policy precisely like that, are others made aware of it? Is the government made aware of it or this committee made aware of it?

Ambassador WOODS. Yes. Let me address that.

We think that such a situation should be so exceptional that, even though we run a very decentralized program, the decision to actually approve a salary supplement should be made by an assistant administrator in Washington.

We do not want to encourage salary supplements. In fact, we want to specifically prohibit them for senior government or policy level officials, but where there is a technical reason to supplement a salary then we think we ought to have the ability to make those decisions.

If the committee is interested in our new policy, which has just been recently transmitted to the field to replace previous guidance, I think we could provide it.

### POLICY GUIDANCE

Senator INOUYE. Can you provide the committee with your policy guidance? Do you have it in writing?

Ambassador WOODS. Yes, indeed.

Senator INOUYE. For the last 5 years and the most recent one that we speak of.

Ambassador WOODS. We can do that. No problem.

Senator INOUYE. Also, a report on how many qualified public servants from high-paying private sector posts have been receiving supplemental pay. I do not suppose this is the only instance.

Ambassador WOODS. Under the new policy guidance, that should not be happening at all.

Senator INOUYE. But in the last 5 years.

[The information follows:]

## SALARY SUPPLEMENTS

Attached is the original guidance cable on salary supplements to host government employees, State 173326, dated June 6, 1987, and the revised cable on the same subject, dated April 15, 1988.

P 060225Z JUN 87 ZEX
FM SECSTATE WASHDC
TO AID WORLDWIDE PRIORITY

UNCLAS STATE 173326

AIDAC MISSION DIRECTORS FROM THE DEPUTY ADMINISTRATOR

E.O. 12356: NOA
TAGS:
SUBJECT: POLICY GUIDANCE ON CRITERIA FOR PAYMENT OF SALARY SUPPLEMENTS TO HOST GOVERNMENT EMPLOYEES

1. ALTHOUGH MANY INDIVIDUAL MISSIONS HAVE ESTABLISHED THEIR OWN POLICIES (MISSION ORDERS) REGARDING THE USE OF DOLLAR OR PROGRAM-GENERATED LOCAL CURRENCY FOR THE PAYMENT OF SALARY SUPPLEMENTS TO HOST GOVERNMENT EMPLOYEES, NO AIDWIDE POLICY HAS BEEN FORMALIZED TO DATE. DUE TO RECENT REPORTS OF PROBLEM IN THE USE OF SALARY SUPPLEMENTS, ISSUANCE OF WORLDWIDE A.I.D. POLICY GUIDANCE ON THIS SUBJECT IS NOW NECESSARY.

2. A.I.D. POLICY GUIDANCE FOR PAYMENT OF SALARY SUPPLEMENTS TO HOST GOVERNMENT EMPLOYEES FOLLOWS.

3. A.I.D. NORMALLY EXPECTS THAT THE HOST GOVERNMENT WILL FINANCE ANY NECESSARY SUPPLEMENTS TO BASIC COMPENSATION FOR ITS REGULAR EMPLOYEES WHEN THEY ARE ASSIGNED TO A.I.D.-FINANCED PROJECTS.

4. THERE ARE INSTANCES, HOWEVER, WHERE AS A LAST RESORT A.I.D. FINANCING OF SUPPLEMENTS TO LOW HOST COUNTRY

SALARIES MAY BE DEEMED ESSENTIAL TO THE ACHIEVEMENT OF HOST COUNTRY AND A.I.D. JOINT PROGRAM OBJECTIVES. SUCH SUPPLEMENTS TYPICALLY TAKE THE FORM OF PREMIUMS FOR RELOCATION TO REMOTE PROJECT SITES, PROJECT-RELATED TRAVEL AND PER DIEM EXPENSES AND OVERTIME COMPENSATION. THEY ALSO MAY TAKE THE FORM OF INCENTIVES, HONORARIA AND BONUSES NECESSARY TO ATTRACT HIGHLY TRAINED TECHNICAL SPECIALISTS TO DEVOTE THEIR EXPERTISE TO THE PLANNING OR IMPLEMENTATION OF DEVELOPMENT PROJECTS.

5. WE DISCOURAGE SALARY SUPPLEMENTS EXCEPT IN VERY SPECIAL CIRCUMSTANCES. THEREFORE, A.I.D. PROJECT FUNDS

MAY BE USED FOR THESE PURPOSES ONLY IF THE FOLLOWING CRITERIA ARE MET:

-- THE PAYMENTS ARE PERMITTED UNDER HOST COUNTRY LAW AND REGULATIONS.

-- THE COOPERATING ENTITY HAS DEMONSTRATED THAT IT CANNOT MAKE THESE PAYMENTS FROM ITS OWN RESOURCES FOR VALID REASONS SUCH AS THE INABILITY OF THE ENTITY TO PROVIDE THE FINANCING WITHIN THE TIME REQUIRED TO MEET THE NEEDS OF THE ACTIVITY.

- THE SUPPLEMENTS ARE JUDGED ESSENTIAL TO THE ACHIEVEMENT OF PROJECT OBJECTIVES.

- EMPLOYEES DO NOT RECEIVE DUPLICATE PAYMENTS BY RECEIVING SUPPLEMENTS FROM ANOTHER SOURCE FOR THE SAME ACTIVITY.

-- THE RATES AND FEES PAID ARE IN ACCORDANCE WITH LOCAL STANDARDS AND ARE LIMITED TO MAGNITUDES REASONABLE IN REFERENCE TO AN EMPLOYEE'S BASE PAY AND, FOR CONTINUING PROGRAMS, IN MAGNITUDES WHICH THE HOST COUNTRY ENTITY COULD BE EXPECTED TO MEET FROM ITS OWN RESOURCES WITHIN A REASONABLE TIME.

-- THE PROPOSED RECIPIENTS WOULD BE CARRYING OUT TECHNICAL, MANAGERIAL OR ADMINISTRATIVE SUPPORT RATHER THAN BROAD POLICY FUNCTIONS.

- A MECHANISM EXISTS FOR PROVIDING THE SUPPLEMENTS WHICH PREVENTS POTENTIAL ABUSE IN THE DETERMINATION OF RECIPIENTS AND AMOUNTS TO BE PROVIDED, ENSURES FINANCIAL INTEGRITY IN THE PAYMENT SYSTEM, AND ESTABLISHES ADEQUATE MONITORING AND REPORTING.

6. THE JUSTIFICATION FOR THE PROPOSED SUPPLEMENTS AND A MECHANISM FOR PROVIDING THE SUPPLEMENTS MUST BE SET FORTH VISIBLY IN AND APPROVED AS PART OF THE ACTIVITY DOCUMENTATION AND/OR AUTHORIZATION AND DESCRIBED IN THE RELEVANT AGREEMENT. WHEN SALARY SUPPLEMENTS ARE LIKELY TO BE INCLUDED IN A PROPOSED A.I.D. PROJECT OR PROGRAM, THIS SHOULD BE CLEARLY INDICATED IN THE PROJECT IDENTIFICATION DOCUMENT (PID), OR OTHER RELEVANT DOCUMENT.

7. THIS POLICY GUIDANCE APPLIES TO THE USE OF A.I.D. DOLLAR RESOURCES, U.S.OWNED LOCAL CURRENCY AND HOST COUNTRY-OWNED LOCAL CURRENCY JOINTLY PROGRAMMED BY A.I.D. AND THE HOST COUNTRY. MISSIONS SHOULD APPLY PROVISIONS OF PARAGRAPH 5 OF THIS GUIDANCE CABLE TO THE PROGRAMMING OF HOST COUNTRY-OWNED LOCAL CURRENCY WHEN THE PROPOSED USES OF THE LOCAL CURRENCY ARE IDENTIFIABLE AS PAYMENT OF SUPPLEMENTS TO REGULAR COMPENSATION LEVELS.

8. THIS POLICY GUIDANCE APPLIES TO ALL NEW PROJECTS AND ACTIVITIES HENCEFORTH. IT MUST ALSO BE APPLIED TO

ONGOING PROJECTS AND ACTIVITIES TO THE FULL DEGREE DEEMED FEASIBLE BY THE MISSION DIRECTOR AND WITHOUT JEOPARDIZING OVERALL A.I.D. COUNTRY PROGRAM OBJECTIVES OR THE OBJECTIVES OF PROJECT OR ACTIVITY AGREEMENTS PREVIOUSLY SIGNED BY USAID AND THE HOST GOVERNMENT. APPROPRIATE ASSISTANT ADMINISTRATORS MUST BE ADVISED IMMEDIATELY OF SPECIFIC CIRCUMSTANCES WHERE ONGOING SALARY SUPPLEMENTS CANNOT BE BROUGHT INTO COMPLIANCE WITH THIS POLICY GUIDANCE. MISSIONS ARE ENCOURAGED TO PROVIDE TO REGIONAL BUREAU ASSISTANT ADMINISTRATORS VIEWS ON THE CONTENT OF THIS POLICY WHICH WILL REMAIN UNDER CONTINUING REVIEW.

9. EXCEPTIONS TO THIS POLICY AND ELIGIBILITY CRITERIA WILL BE GRANTED VERY RARELY AND MUST BE APPROVED IN ADVANCE BY THE APPROPRIATE ASSISTANT ADMINISTRATOR IN WASHINGTON.

10. THIS POLICY GUIDANCE IS UNDER CONTINUING REVIEW AND IS OPERATIVE UNTIL FURTHER NOTICE.

11. ANY QUESTIONS REGARDING THE APPLICATION OF THIS GUIDANCE SHOULD BE DIRECTED TO AA/PPC AND REGIONAL BUREAU ASSISTANT ADMINISTRATORS.

12. THIS MESSAGE SUPERCEDES THE ADMINISTRATOR'S

CRITERIA FOR PAYMENT OF SALARY SUPPLEMENTS TO HOST GOVERNMENT EMPLOYEES SIGNED MARCH 18, 1987 AND SENT TO LAC MISSIONS. SHULTZ

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P 152040Z APR 88 ZEX
FM SECSTATE WASHDC
TO AID WORLDWIDE PRIORITY

UNCLAS STATE 119780

AIDAC

E.O. 12356: N/A

SUBJECT: POLICY GUIDANCE ON CRITERIA FOR PAYMENT OF SALARY SUPPLEMENTS FOR HOST GOVERNMENT EMPLOYEES

REF: A) STATE 173326, B) STATE 195580

1. THIS CABLE CLARIFIES AND SUPERCEDES AGENCY POLICY GUIDANCE ON PAYMENT OF SALARY SUPPLEMENTS TO HOST GOVERNMENT (HG) EMPLOYEES CONTAINED IN REF (A). AID/W HAS REVIEWED FIELD RESPONSES TO THE QUESTIONNAIRE ON SALARY SUPPLEMENTS CONTAINED IN REF (B) AND FOUND THESE RESPONSES HELPFUL IN IDENTIFYING NECESSARY CHANGES AND CLARIFICATIONS. MUCH OF THIS GUIDANCE IS IDENTICAL TO THE GUIDANCE CONTAINED IN REF (A); HOWEVER, THE

PARAGRAPHS BELOW DO PROVIDE NEW DEFINITIONS AND EXPLANATIONS OF THE COVERAGE OF THIS POLICY AS WELL AS ADDITIONAL REQUIREMENTS FOR DOCUMENTATION OF SALARY

SUPPLEMENTS PAID BY A.I.D.

2. THE ISSUE OF SALARY SUPPLEMENTS REMAINS SENSITIVE AND A MATTER OF BOTH CONGRESSIONAL AND AGENCY CONCERN. IT IS A.I.D. POLICY THAT SALARY SUPPLEMENTS SHOULD BE CONSIDERED AN EXCEPTION TO NORMAL A.I.D. PRACTICE REQUIRING EXCEPTIONAL JUSTIFICATION.

3. DEFINITIONS:

A. A HG EMPLOYEE COVERED UNDER THIS GUIDANCE IS AN EMPLOYEE PAID BY THE HG, OCCUPYING AN ESTABLISHED POSITION, EITHER TEMPORARY OR PERMANENT, PART-TIME OR FULL-TIME, WITHIN A HG INSTITUTION. A HG INSTITUTION IS AN ORGANIZATION IN WHICH THE GOVERNMENT OWNS AT LEAST A FIFTY PERCENT SHARE OR RECEIVES AT LEAST FIFTY PERCENT OF ITS FINANCIAL SUPPORT FROM THE GOVERNMENT.

B. SALARY SUPPLEMENTATION OCCURS WHEN PAYMENTS ARE MADE THAT AUGMENT AN EMPLOYEE'S BASE SALARY OR PREMIUMS, OVERTIME, EXTRA PAYMENTS, INCENTIVE PAYMENT AND ALLOWANCES FOR WHICH THE HG EMPLOYEE WOULD QUALIFY UNDER HG RULES OR PRACTICE FOR THE PERFORMANCE OF HIS REGULAR DUTIES OR FOR WORK PERFORMED DURING HIS REGULAR OFFICE HOURS. PAYMENT, IN FULL OR PART, OF HG BASE SALARIES AND OTHER ENUMERATED PAYMENTS AT HG RATES WOULD BE SUBJECT TO THE AGENCY'S GUIDANCE ON RECURRENT COST (SEE HANDBOOK-1, PART III.A2). WHERE THE MISSION PAYS THE SALARY AND ALLOWANCES OF HG OFFICIALS AT THE HG RATE, IT IS NOT CONSIDERED A SALARY SUPPLEMENT BUT RATHER RECURRENT COST.

C. THE FOLLOWING ARE NOT CONSIDERED TO BE SALARY SUPPLEMENTS: PER DIEM; INVITATIONAL TRAVEL; HONORARIA AND PAYMENT FOR WORK CARRIED OUT OUTSIDE OF NORMAL WORKING HOURS. THE RULES GOVERNING THESE TYPES OF PAYMENTS ARE SUMMARIZED IN PARAGRAPH 5 BELOW.

4. RULES ON SALARY SUPPLEMENTS:

A. A.I.D. DISCOURAGES SALARY SUPPLEMENTS EXCEPT IN VERY SPECIAL CIRCUMSTANCES. HENCEFORTH, MISSIONS MUST SUBMIT ANY NEW PROPOSALS FOR SALARY SUPPLEMENTATION TO A.I.D. WASHINGTON FOR APPROVAL BY THE APPROPRIATE ASSISTANT ADMINISTRATOR.

B. A.I.D. NORMALLY EXPECTS THAT THE HG WILL FINANCE ANY NECESSARY SUPPLEMENTS TO COMPENSATION FOR ITS REGULAR EMPLOYEES WHEN THEY ARE ASSIGNED TO A.I.D.-FINANCED PROJECTS. THERE ARE INSTANCES, HOWEVER, WHERE AS A LAST RESORT A.I.D. FINANCING OF SUPPLEMENTS TO LOW HOST COUNTRY SALARIES MAY BE DEEMED ESSENTIAL TO THE ACHIEVEMENT OF HG AND A.I.D. JOINT PROGRAM OBJECTIVES. SUCH SUPPLEMENTS TYPICALLY TAKE THE FORM OF PREMIUMS FOR RELOCATION TO REMOTE PROJECT SITES, INCENTIVES, AND

BONUSES NECESSARY TO ATTRACT HIGHLY TRAINED TECHNICAL SPECIALISTS TO DEVOTE THEIR EXPERTISE TO THE PLANNING OR

C. A.I.D. PROJECT FUNDS MAY BE USED FOR THESE PURPOSES ONLY IF THE FOLLOWING CRITERIA ARE MET:

-- THE PAYMENTS ARE PERMITTED UNDER HOST COUNTRY LAW AND REGULATIONS.

-- THE COOPERATING ENTITY HAS DEMONSTRATED THAT IT CANNOT MAKE THESE PAYMENTS FROM ITS OWN RESOURCES FOR VALID REASONS SUCH AS THE INABILITY OF THE ENTITY TO PROVIDE THE FINANCING WITHIN THE TIME REQUIRED TO MEET THE NEEDS OF THE ACTIVITY.

-- THE SUPPLEMENTS ARE JUDGED ESSENTIAL TO THE ACHIEVEMENT OF PROJECT OR PROGRAM OBJECTIVES.

-- EMPLOYEES DO NOT RECEIVE DUPLICATE PAYMENTS BY RECEIVING SUPPLEMENTS FROM ANOTHER SOURCE FOR THE SAME ACTIVITY.

-- THE RATES AND FEES PAID ARE IN ACCORDANCE WITH LOCAL STANDARDS AND ARE LIMITED TO AMOUNTS REASONABLE IN RELATION TO AN EMPLOYEE'S PAY AND, FOR CONTINUING PROGRAMS, IN AMOUNTS WHICH THE HOST COUNTRY ENTITY COULD BE EXPECTED TO MEET FROM ITS OWN RESOURCES WITHIN A REASONABLE TIME.

-- THE PROPOSED RECIPIENTS WOULD BE CARRYING OUT TECHNICAL, MANAGERIAL OR ADMINISTRATIVE SUPPORT RATHER THAN BROAD POLICY FUNCTIONS.

-- A MECHANISM EXISTS FOR PROVIDING THE SUPPLEMENTS WHICH PREVENTS POTENTIAL ABUSE IN THE DETERMINATION OF RECIPIENTS AND AMOUNTS TO BE PROVIDED; ENSURES FINANCIAL INTEGRITY IN THE PAYMENT SYSTEM; AND ESTABLISHES ADEQUATE MONITORING AND REPORTING.

D. IF THE ABOVE CRITERIA ARE MET, JUSTIFICATION FOR THE PROPOSED SUPPLEMENTS AND A MECHANISM FOR PROVIDING THE SUPPLEMENTS MUST BE SET FORTH EXPLICITLY IN AND APPROVED AS PART OF THE ACTIVITY DOCUMENTATION AND/OR AUTHORIZATION AND DESCRIBED IN THE RELEVANT AGREEMENT. WHEN SALARY SUPPLEMENTS ARE LIKELY TO BE INCLUDED IN A PROPOSED A.I.D. PROJECT OR PROGRAM, THIS SHOULD BE CLEARLY INDICATED IN THE PROJECT IDENTIFICATION DOCUMENT (PID), OR OTHER RELEVANT DOCUMENT. THIS JUSTIFICATION AND A DESCRIPTION OF THE MECHANISM FOR PROVIDING THE SALARY SUPPLEMENTATION MUST BE REVIEWED BY THE APPROPRIATE ASSISTANT ADMINISTRATOR. DOCUMENTATION OF THE LEGALITY OF SUCH PAYMENTS UNDER HOST COUNTRY LAWS AND REGULATIONS SHOULD BE MAINTAINED AND READILY ACCESSIBLE AS PART OF THE PROJECT OR PROGRAM FILES.

E. THIS POLICY GUIDANCE APPLIES TO THE USE OF A.I.D. DOLLAR RESOURCES, AS WELL AS TO U.S.-OWNED LOCAL CURRENCY

AND HOST COUNTRY-OWNED LOCAL CURRENCY JOINTLY PROGRAMMED BY A.I.D. AND THE HOST COUNTRY WHEN THE PROPOSED USES OF THE LOCAL CURRENCY INCLUDE EXPLICITLY PAYMENT OF SALARY SUPPLEMENTS.

F. POLICY-MAKING OFFICIALS SHALL NOT RECEIVE A.I.D. PAYMENT OF SALARY SUPPLEMENTS IN ANY FORM INCLUDING A.I.D. PAYMENTS FOR PROJECT-RELATED WORK CONDUCTED OUTSIDE NORMAL WORKING HOURS AS DISCUSSED IN PARAGRAPH 5.D. BELOW. POLICY-MAKING OFFICIALS ARE DEFINED AS HIGH-LEVEL ELECTED OR APPOINTED OFFICIALS SUCH AS THOSE SERVING ON THE CABINET OR IN THE IMMEDIATELY SUBORDINATE SUB-CABINET POSITION.

G. THIS POLICY GUIDANCE APPLIES TO ALL NEW PROJECTS AND ACTIVITIES HENCEFORTH. IT MUST ALSO BE APPLIED TO ONGOING PROJECTS AND ACTIVITIES TO THE FULL DEGREE DEEMED FEASIBLE BY THE MISSION DIRECTOR AND WITHOUT JEOPARDIZING OVERALL A.I.D. COUNTRY PROGRAM OBJECTIVES PREVIOUSLY SIGNED BY THE USAID AND THE HG, INCLUDING THOSE FUNDED BY A.I.D. AND MANAGED BY PVOS OR OTHER NON-GOVERNMENTAL ORGANIZATIONS. APPROPRIATE ASSISTANT ADMINISTRATORS MUST BE ADVISED IMMEDIATELY OF SPECIFIC CIRCUMSTANCES WHERE ONGOING SALARY SUPPLEMENTS CANNOT BE BROUGHT INTO COMPLIANCE WITH THIS POLICY GUIDANCE. MISSIONS WILL PROVIDE SPECIFIC DETAILS TO THE ASSISTANT ADMINISTRATORS WHERE THERE IS ANY DOUBT REGARDING THE LEGAL BASIS OF SALARY SUPPLEMENTS (SEE SUBPARAGRAPH I BELOW).

H. USAIDS SHOULD DISCUSS THE ISSUE OF SALARY SUPPLEMENTS WITH OTHER DONORS IN AN EFFORT TO MINIMIZE THE PRACTICE, AVOID DUPLICATIVE PAYMENTS FOR THE SAME PROJECT OR ACTIVITY, MODERATE COMPETITIVE EFFORTS TO ATTRACT LIMITED CAPABLE PERSONNEL AND, IN CASES WHERE SUPPLEMENTATION IS NECESSARY, TO ARRIVE AT GENERALLY COMPARABLE LEVELS OF SUPPLEMENTARY COMPENSATION.

I. ANY LEGAL QUESTIONS SHOULD BE RESOLVED BY THE MISSION DIRECTOR IN COORDINATION WITH THE REGIONAL LEGAL ADVISOR. IF ANY DOUBT REMAINS CONCERNING LEGAL QUESTIONS, THE REGIONAL ASSISTANT ADMINISTRATOR OR HIS DESIGNEE IN COORDINATION WITH A.I.D./GC SHOULD MAKE THE DETERMINATION. ANY OTHER QUESTIONS REGARDING APPLICATION OF THIS GUIDANCE SHOULD BE DIRECTED TO THE REGIONAL BUREAU ASSISTANT ADMINISTRATOR AND AA/PPC.

J. EXCEPTIONS TO THIS POLICY AND ELIGIBILITY CRITERIA WILL BE GRANTED VERY RARELY AND MUST BE APPROVED IN ADVANCE BY THE APPROPRIATE ASSISTANT ADMINISTRATOR IN WASHINGTON.

5. RULES ON PAYMENTS TO INDIVIDUALS WHICH ARE NOT CONSIDERED TO BE SALARY SUPPLEMENTS:

A. PER DIEM IS PERMISSIBLE FOR PROGRAM OR PROJECT-RELATED ACTIVIES PROVIDED ANY SUCH REIMBURSEMENT IS PAID AT THE HG RATE, U.S. GOVERNMENT RATE OR ON AN ACTUAL COST REIMBURSEMENT BASIS.

B. IT IS PERMISSIBLE TO FUND THE INTERNATIONAL TRAVEL OF POLICY OFFICIALS ON INVITATIONAL TRAVEL ORDERS APPROVED BY THE MISSION DIRECTOR. IN SPECIAL CIRCUMSTANCES, SUCH AS WHEN HG POLICY OFFICIALS ACCOMPANY U.S. GOVERNMENT OFFICIALS ON OFFICIAL TRAVEL WITHIN THE HOST COUNTRY, IT IS ALSO PERMISSIBLE TO FUND DOMESTIC TRAVEL OF HG POLICY-MAKING OFFICIALS AT THE U.S. GOVERNMENT RATE OR ON AN ACTUAL COST REIMBURSEMENT BASIS, EVEN THOUGH THE OFFICIAL IS NOT ON U.S. GOVERNMENT TRAVEL ORDERS. SUCH TRAVEL COSTS AND PER DIEM ARE NOT CONSIDERED SALARY SUPPLEMENTS.

C. HONORARIA MAY BE PAID TO UNIVERSITY EMPLOYEES AND TO MEMBERS OF RESEARCH INSTITUTIONS, WHO ARE HG EMPLOYEES SOLELY BY VIRTUE OF THEIR POSITION IN A UNIVERSITY OR RESEARCH INSTITUTION, CARRYING OUT PROJECT-RELATED ACTIVITIES OUTSIDE THEIR NORMAL DUTIES WHERE THE NORMAL PRACTICE OF THE HG CONDONES THIS TYPE OF ADDITIONAL WORK. ONLY NOMINAL AND OCCASIONAL PAYMENTS OF HONORARIA TO OTHER HG EMPLOYEES UNDER SIMILAR CIRCUMSTANCES MAY BE PAID PROVIDED SUCH PAYMENTS ARE CLEARLY FOR FUNCTIONS OUTSIDE THEIR NORMAL DUTIES AND DO NOT TAKE PLACE DURING NORMAL WORKING HOURS OR OTHERWISE CONFLICT WITH OFFICIAL DUTIES IN WHICH CASE THEY ARE NOT CONSIDERED SALARY SUPPLEMENTS. FREQUENT RECURRING PAYMENTS ARE PROHIBITED EXCEPT FOR UNIVERSITY EMPLOYEES.

D. PAYMENT FOR PROJECT-RELATED RESEARCH AND SPECIFIC STUDIES CONDUCTED OUTSIDE NORMAL WORKING HOURS AND PERMITTED BY HG PRACTICE AND LAW IS ALLOWABLE PROVIDED THE HG EMPLOYEE IS NOT COMPLETING THIS WORK DURING HOURS OF HIS REGULAR DUTIES PAID BY THE HG AND PROVIDED THE WORK DOES NOT CONFLICT IN ANY OTHER WAY WITH OFFICIAL DUTIES. A CLEAR RELATIONSHIP AND METHOD OF PAYMENT NEEDS TO BE ESTABLISHED FOR THESE SERVICES, E.G. - COOPERATIVE AGREEMENT, END PRODUCT OR PURCHASE ORDER. GENERALLY, A PSC IS NOT CONSIDERED AN APPROPRIATE MECHANISM BECAUSE OF THE IMPLIED EMPLOYEE/EMPLOYER RELATIONSHIP. MISSIONS SHOULD GENERALLY AVOID FINANCING PAYMENTS FOR INDIVIDUALS WHO ARE ALREADY CARRYING OUT SIMILAR ACTIVITIES AS PART OF THEIR NORMAL DAILY DUTIES OR OFFICIAL FUNCTION. ALSO TO THE MAXIMUM EXTENT PRACTICAL, THE WORK SHOULD BE PERFORMED ON A SITE OTHER THAN THE EMPLOYEE'S NORMAL WORK SITE. IT SHOULD BE KNOWN TO THE EMPLOYEE'S HG SUPERVISOR.

E. MISSIONS ARE RESPONSIBLE TO ENSURE THAT ADEQUATE DOCUMENTATION IS AVAILABLE IN PROJECT OR PROGRAM FILES TO SUPPORT ANY PAYMENTS MADE WITHIN THE SCOPE OF THIS POLICY GUIDANCE ON PAYMENTS TO INDIVIDUALS WHICH ARE NOT CONSIDERED TO BE SALARY SUPPLEMENTS. SHULTZ

## SALARY SUPPLEMENTS

When this issue arose last year, a questionnaire was cabled to all A.I.D. missions soliciting information on mission practices in regard to the payment of salary supplements then in effect. We did not request information regarding previous years because records were not kept for such situations and information available would have been only anecdotal. We in fact discovered that there were many misconceptions regarding what constituted a salary supplement.

The results of that questionnaire were tabulated and forwarded in February 1988 to this committee. I will be happy to submit an additional copy of this report for the record. In regard to your specific question, none of the mission responses indicated that a qualified public servant from a high paying private sector post was receiving supplemental pay. For example, in the case of Sudan, the mission reported as part of its justification for the limited use of supplementation (funded exclusively from jointly programmed host country-owned local currency), the fact that qualified Sudanese are able to earn more abroad and that supplementation therefore was necessary to attract and retain qualified personnel for projects. The mission also pointed out that this is a common situation confronted by other donors. This point was made by other missions, particularly in Africa. Another reason cited by missions for the United States and other donors to pay premium wages was because employees were required to meet job qualifications or work additional hours beyond the host country norm to carry out project-related activities.

We believe the policy guidance, issued in June 1987 and subsequently revised in consultation with House and Senate Appropriations Committees, will ensure that the payment of supplements will be an exception to normal A.I.D. practice. Any such payments will require exceptional justification as well as mechanisms for ensuring financial integrity and accountability.

## DISCIPLINARY PROCEEDINGS

Senator INOUYE. Do you have any administrative or judicial disciplinary proceedings applied to such cases, salary supplemental cases, the cases that are clearly in violation of your written policy?

Mr. HALLIGAN. In that particular set of circumstances, it is the Department of Justice.

Ambassador WOODS. I was not certain about that.

The one to which you referred earlier was discussed last year and has been referred to the Department of Justice. They have not gotten back to us on that.

## CONGRESSIONAL PRESENTATION

Senator INOUYE. The next item is one that concerns us very much, so I will read this question so that the record will be very precise.

The committee continues to be concerned that A.I.D.'s congressional presentation document which serves as the annual budget justification for A.I.D.'s proposed fiscal year funding request does not adequately present A.I.D.'s proposed program.

Year after year there are numerous changes to the projects justified in the CPD. This can be seen in the large number of reprogramming notices submitted by A.I.D. to its oversight committees.

For example, during fiscal year 1987, 883 notifications representing some 1,197 reprogramming actions were submitted. For the most part, these actions represented increases to existing projects or funding for new projects not justified in the CPD.

In addition to these notifications, A.I.D. reported about 550 project reductions totaling about $1.7 billion during fiscal year 1987.

Do you have a better way to do business?

Ambassador WOODS. The process by which the CP is put together begins many months before the congressional presentation is submitted to the Congress.

Changes to the administration's requests are made by Congress, obviously, as you go through your appropriations process, in addition to which we get directives, recommendations, and targets with which we feel an obligation to comply.

This means that there are going to be changes in the CP that will require the many notifications that you have just described.

The other factor involves timing, because missions submit their projected programs well in advance of the CP submission. A.I.D. develops the fiscal year 1990 budget while the Congress is still debating the fiscal year 1989 budget request.

The numbers that we have projected for fiscal year 1990 may change significantly as a result of your appropriations process and ensuing revisions to anticipated resource availabilities, resulting in many more modifications than either of us would like.

To be very honest with you, Senator, I have not had a chance to look at the issue which you have raised to see whether improvements might be made.

### OVERSIGHT ACTIVITIES

Senator INOUYE. The committee is interested because our major function is oversight. We have not had the opportunity to justify some of these changes. We are not able to carry out our responsibilities.

I have had comparisons made of your portfolio with other large portfolios, and you will find that on a dollar-per-dollar basis you are over double that of Labor, HHS or DOD. They go through the same cycle. They go through the same CPD procedure, and they do not seem to have as many reprogramming actions.

I was just wondering if something can be done to make it easier for us.

Now, for example, if you are going to come up with 550 project reductions totaling $1.7 billion, which is more than 10 percent of our total budget here, I do not think we can carry out our oversight activities.

Ambassador WOODS. Senator, my previous government services in the Department of Defense suggest one thing to me in that respect, and I hesitate to mention it, but I think it is the factual case. My memory of the Department on Defense was that the threshold level for coming to Congress for reproorammings is substantially different than the threshold level we have at A.I.D.

That, too, may account for some of the differences in numbers. I cannot say that that is absolutely the case because, as indicated, I have not looked at this question in any depth.

Senator INOUYE. I hope you will look into this matter. I think it will be very helpful to this subcommittee.

[The information follows:]

### REPROGRAMMING NOTIFICATIONS

I believe you made note of this discrepancy in your committee's report for fiscal year 1988. The use of the "global report," which your committee recommended, to notify the Congress of changes in annual obligation or life-of-project levels should serve to reduce the number of congressional notifications provided to this and other committees.

### NICARAGUA

Senator INOUYE. On April 2 the President signed into law a bill providing $47 million in humanitarian assistance to the people of Nicaragua and the Nicaraguan resistance. A.I.D. was directed by this bill to serve as the administrative body.

In your planning process thus far, have you interviewed members of Pan American Trauma Association?

Ambassador WOODS. I am not aware, Senator. We have a lot of people working in that program, so that may have occurred.

Senator INOUYE. They are supposed to be involved in the care of paraplegics, burn victims, amputees, et cetera.

Ambassador WOODS. As I say, I am unaware of that.

[The information follows:]

### PAN AMERICAN TRAUMA ASSOCIATION

A.I.D. has been in contact with the Pan American Trauma Association. They are not an A.I.D.-registered private voluntary agency [PVO] and, therefore, are not eligible for A.I.D. funding. We have, however, provided them with instructions on PVO registration procedures.

### INTEGRATED HOSPITAL AND PREHOSPITAL CARE

Senator INOUYE. How do you intend to implement the extensive American College of Surgeon's plan of integrated hospital and prehospital care as prescribed by the author of this bill? What private voluntary organizations are now being considered by A.I.D. to implement this program?

Ambassador WOODS. We have just gone through a process of identifying and contacting private volunteer organizations to provide us with proposals for how medical care could be provided specifically to children affected by the war in Nicaragua. We are now going through a process of selecting those private voluntary organizations for at least some of the funds which Congress has provided.

We are holding back and not programming all those funds at this time simply because we will need a reserve for changes that might occur.

Those organizations will soon be advised of their selection. We are discussing with them how their services will be provided over the course of this week and next, I believe.

Is that right, Tom?

Mr. McKAY. That is correct.

Senator INOUYE. Are you planning to use Nicaraguan hospitals to carry out parts of this program?

Ambassador WOODS. With the private voluntary organizations that have submitted their plans, we would plan to use some hospitals in Nicaragua. One of the specific guidelines of the legislation is that none of the funds should be provided to or through the Government of Nicaragua.

Originally, I think some of the private voluntary organizations thought this would be an obstacle. In fact, I think what has occurred is they have identified private hospitals or hospitals that were underutilized or in some way not connected with the Government of Nicaragua that would be able to provide the health care which the law requires. I think that is pretty much worked out at this point.

Senator INOUYE. Who in your office is in charge of Contra activities?

Ambassador WOODS. We refer to it as the humanitarian assistance in Central America. Mr. Ted Morse, who has been our mission director in Zambia, has been brought in to head that task force, and he reports to me.

Senator INOUYE. According to news reports, there is apparently a conflict within the Nicaraguan resistance organization. In large forms, it is either the political or the military.

Who do you deal with, the political side or the military side?

Ambassador WOODS. We try to talk to everybody, Senator. This is a very complex program and, in fact, we try to operate it so that the program is neutral.

Senator INOUYE. I would like to be a little parochial now, a couple of Hawaiian things.

### MEDEX AND PRIMARY HEALTH CARE

Your agency has been supporting developmental work in primary health care and child survival programs by the Medex Group at the University of Hawaii, and the evaluators of your office have favorably reviewed this program.

I presume you are familiar with this work?

Ambassador WOODS. I have become familiar with this work.

Senator INOUYE. I believe that one of the committee's highest priorities is the strengthening of the role of nurses and women in development.

Are you aware that a proposal has been submitted to A.I.D. by Medex to strengthen the role of Third World nursing in primary health care and child survival programs?

Ambassador WOODS. Yes, I am.

Senator INOUYE. I hope you will look this over and, if it is reasonable, give it your favorable ruling.

Dr. BRADY. Let me say we have worked with the Medex organization for, I believe, about 14 years, and our experience with them has been quite positive. So if it is a reasonable proposal as you say, I am sure we will be interested in it because they have proven to be such an outstanding organization in the past.

### AGING

Senator INOUYE. One of the major problems in this country is the lack of professional personnel to deal with the problem of aging.

In fact, if my recollection is correct, less than one-tenth of 1 percent of the physicians and nurses in the United States have received specialized training in geriatrics. Yet, we all know that our aging population is growing by geometric proportions.

Now, other countries are now having this problem, developing countries, and as a result in our report we recommended that you begin to channel some of the resources into aging research activities.

What have you done in that area?

Ambassador WOODS. Let me tell you about a couple of things we have done.

One of the activities that I have instituted since I became A.I.D. Administrator is to have two staff meetings a week. That might not seem particularly dramatic, but one of these staff meetings brings the senior staff of the agency together to discuss and share ideas on one subject. We do not just go around the room and have people report, but exchange experiences, views and ideas.

One of the subjects which we have focused on is the problem of aging to better acquaint senior staff with that issue. It takes the form both of a briefing and a discussion. So we do consider this to be an important issue, particularly when you consider the time of the senior staff at the agency to be as valuable as I do.

I have also met with the head of the National Institute on Aging about this subject.. We are in the process of developing a research and planning program on how A.I.D. should deal with the problem of aging in developing countries.

It is an interesting problem because we see evidence in the research that has been done in the past that the problems of aging in developing countries are somewhat different than the experiences we have had in the United States.

This raises some interesting policy issues, and in many respects it is a good thing that the issue of aging has become an issue in developing countries, because it means people are living longer.

But it does present some interesting and new policy questions that have not been addressed before in the development context. So we are looking at that issue quite closely.

### FUNDING FOR AIDS

Senator INOUYE. In the budget reported to the Congress, the President recently described AIDS as the highest public health concern of the administration. I notice for A.I.D. funding for AIDS prevention and control, it is a constant $30 million. Yet, we all know that AIDS came from abroad and apparently it is still a matter of major concern in less developed countries, in Africa, in the Caribbean and places like that.

What is your reluctance to request more funding for AIDS outside the United States?

Ambassador WOODS. I think you have to look at our budget in two ways. First of all, the DA account, in which you find the functional account for AIDS, was reduced slightly but the AIDS request was straightlined. So in actual percentage terms, the request for AIDS went up.

Second, other accounts will provide funding for AIDS in fiscal year 1989—not just the AIDS functional account. We estimate that in fiscal year 1988 we will spend at least the $30 million appropriated for AIDS. In fiscal year 1989, the funds above that account level will come from other places in the DA account and from the Development Fund for Africa, where AIDS is obviously a serious public health problem.

Senator INOUYE. Senator Mikulski, do you have any questions?

Senator MIKULSKI. Yes. Has Senator Kasten asked his?

Senator KASTEN. I have already had one round of questioning.

Senator INOUYE. You are so quiet there.

Senator MIKULSKI. I was mesmerized by your questions, Mr. Chairman.

Mr. Ambassador, we want to welcome you to the committee. It is a big job that you are stepping into.

## WOMEN IN SENIOR POSITIONS

I have some questions about A.I.D. programmatic activity, but first I am going to welcome your very able team. I see no women here. When I turn to the administration and ask about its employment practices, I find that women are not high tech enough or not qualified enough, and A.I.D. seems to be one of those agencies.

Certainly in A.I.D. there is talent for women in senior management. Could you tell me what the situation is and not just judged by today's current head table?

Ambassador WOODS. Frankly, Senator, I personally have not been impressed with the level of either women in high positions in A.I.D. or with the number of minorities in high positions for that matter.

It is a matter which I am concerned about, and I spent some time with our personnel people to see if we cannot correct it.

Obviously this is not a circumstance that can be corrected in a short period of time, but if you have the right programs in place, sometimes the speed at which those things can happen exceeds one's expectations.

So I take your concern as being appropriate.

Senator MIKULSKI. Well, I am not being critical of you because you have just inherited an agency, but we really would like demonstrable steps taken both of the political appointee and particularly the career level where we think that there are substantial numbers of people trained in public health and community development.

Ambassador WOODS. It is a problem throughout the foreign affairs community in the U.S. Government, and you are right. It is a matter that needs attention.

Senator MIKULSKI. Well, it is a problem with foreign affairs and it is problem in science and technology, it is a problem with the Marines. It is a problem everywhere with everybody. But in your particular agency we do know that there is a talent pool.

### A.I.D. EFFICIENCY

Let me move on to A.I.D. efficiency. Last year under Mr. McPherson I asked the A.I.D. Inspector General, Herbert Beckington, what steps we should take to increase efficiency with the agency. He said we need fewer projects in a given country, less ambitious projects and less complex projects. These are my words, but we should concentrate on the specific and the attainable.

He suggested more simplicity in individual projects and said that your program officers in the field were stretched very, very thin.

Would you give us your reaction to his statement now that you have made an assessment of your own agency and what you see as the management direction that you will take in A.I.D.?

Ambassador WOODS. I think that the description that the Inspector General made last year was valid. It is my view that on a country-by-country basis, A.I.D. needs to better focus its activities.

There are some problems with our ability to do this and I will be quite candid with you and the committee about our problems. When we have a congressional directive or earmark to spend funds in a certain area, we end up having to spread our funds among a wide range of activities and countries. The more earmarks we have, the more restrictions we place on our missions to spend money in specific ways. They oftentimes have to create new projects to do that.

I think we need another way of doing business, quite frankly.

### EARMARKING

Senator MIKULSKI. You are saying, then, that your people are spread too thin because we earmark?

Ambassador WOODS. No. I was afraid you would jump to that conclusion, and that is not what I am saying. Earmarking is one of many factors.

What occurs is the missions develop projects that A.I.D. Washington wants them to do, as well as the projects that they want to fund. When you take all these initiatives together, you can end up with more projects in a country portfolio than there should be.

I think we need to address ourselves to helping the missions develop a more focused portfolio on a country-by-country basis.

Senator MIKULSKI. Are you going to do that?

Ambassador WOODS. We are looking at techniques to do that right now, yes, Senator.

### PROJECTS IN HAITI

Senator MIKULSKI. Last year I raised the issue that there are more than 700 separate A.I.D. projects operating in Haiti. Haiti is a little country, and there were 700 different project activities. I presume that there are other countries in a similar situation, but that is probably the most exaggerated case.

Have you had a chance to look into that type of situation and how all these projects would be coordinated and whether we need one-stop shop or something in some of these countries?

Ambassador WOODS. I had a chance to look at your questions to the Inspector General from last year on this subject.

With each of our missions, we do a pretty good job, I believe, with coordination. We know what is going on at the mission level.

With regard to Haiti, as you know we have cut back our programs significantly because of the turmoil and the lack of satisfactory electoral activity in that country. We still have programs going forward there. They do not go through the Haitian government, but provide benefits directly to the Haitian people through private volunteer organizations. These activities are controlled by our mission in Port au Prince.

Senator MIKULSKI. But you see, my whole point in knowing where we are now with Haiti in kind of a freeze frame situation, as you now are assuming more and more of the reins of the A.I.D. administrative functions and going deeper into doing this, is that this is a great case study of how we got to 700 projects in a little country and how we can avoid this situation in the future.

### EXCHANGE RATE LOSSES

The other thing that I raised with the Inspector General last year and then also with Mr. McPherson was the exchange rate issue. I pointed out the money that A.I.D. was losing on exchange rate transactions, something like $41 million in Central and Latin America, and I wanted to make you aware of it, $33 million was lost in El Salvador, $4 million in Guatemala, $4 million in Ecuador, and I asked that that be followed up because of the tight budgets.

We have to make every dollar count, and this again seems to be a technical thing.

Recognizing some wild fluctuations in the market, has A.I.D. followed up on this issue, and have there been further instances of losses on currency exchange?

Ambassador WOODS. I have had an opportunity to talk to the Inspector General about that as well as to the senior staff. The circumstance which the inspector's initial audit focused on was the Dominican Republic, and then the audit was expanded to other areas.

It is an issue that received inadequate attention in the past, but is now being attended to in a much more rigorous manner. I think the result of the additional attention has substantially solved the problem. However, I could not sit here right now and say that there have not been some losses because of the nature of exchange rates.

The policy of the agency is to get the best exchange rate we can legally obtain. The fact is that in many of the places where we operate, there is an illegal market operating which obviously is not appropriate, as a foreign policy matter, for the United States to participate in.

So in that sense we probably lose some money that you could categorize as a "loss." This is the way we have to operate, and I think appropriately so.

Senator MIKULSKI. Well, I am sure as you do the implementation of the humanitarian assistance to Central America, you will find in Nicaragua, essentially a subterranean dollar economy. I think the exchange rate when we were there in January was five or six times the official rate that you would be using.

I am not talking about that. I am talking about the straight market bank to bank, financial institution to government transaction.

Do you want to read your note? I know what it is like to get those.

Ambassador WOODS. I was asked to correct the record that in Haiti today we have only 19 projects.

Senator MIKULSKI. But you did have 700.

Ambassador WOODS. Those were all donors, not just United States as I understand it.

Senator MIKULSKI. Well, still, you have to get it together, again even with the donor agencies. I mean, I think that is chaos. That is not aid.

### FIVE-TO-FIFTEEN-YEAR-OLD GIRLS

The last question, with the Chairman's indulgence, is in human development. One of my concerns is that a gap now exists in our Women in Development Assistance Program once girls reach 5 or 6 and then move on to adulthood.

We find that we do a marvelous job with the girls up until the age of 5. We immunize them against polio, but we do not immunize them against what is going to happen to them in their own society.

We give them oral dehydration programs and save their lives, but too often Third World girls are denied education, vocational training, certain things that you have no control over, the right to inherit property or whatever. Often the girls end up as chattel and in very ugly circumstances.

We know that there is a lot of attention always on the shoeshine boys or the abandoned children like in Brazil. They love to make romantic movies about these children. There is nothing romantic about being a shoeshine boy. The boys are on the street shining shoes, shoplifting, pickpocketing. The girls are behind closed doors in porno flicks and sex stores and a variety of other things.

I know you cannot solve all the world's problems, but what in the area of development will we be doing to help girls, particularly between the ages of 5 and 15 when then they move into a society whose laws we cannot change but where we can at least give them tools to cope?

Ambassador WOODS. Well, interestingly——

Senator MIKULSKI. Like the abandoned child, for instance.

Ambassador WOODS. To address, first of all, the whole question of Women in Development, I think it is very important to see that Women in Development is a development issue. I think we in this country tend to think of this as a women's issue. Indeed, it is a women's issue but it is women as it relates to development.

Senator MIKULSKI. I do not care how you classify it.

Ambassador WOODS. I think it is important to understand this point because the fact is that in many respects it is an issue that underlies the entire question of development, not just a small slice of it. Women represent 50 percent of the people in the world, looked at in another way.

Women tend to be the farmers in Africa, and if Africa is going to grow more food and be able to feed its people, it is the women who are going to make it happen.

It is women who are the health providers in many of the countries of Asia and who, as we have seen, are the entrepreneurs in Bangladesh.

You have raised a particularly important issue, it seems to me, when you talk about the specific age group 5 to 15, because A.I.D. programs tend to focus on educational programs for that age group. Other A.I.D. programs are not geared toward that particular age group.

We are dealing with those children's parents in all sorts of areas, but programs for young girls are basically limited to health care in general, child survival and education. Where we have basic, secondary or vocational educational activities and participant training, women are involved and we are trying at all times to increase the level of women involved in those programs.

The age group that you are talking about is not a target group, per se, in our programmatic activities.

Senator MIKULSKI. What would your suggestions be?

Ambassador WOODS. Education, it seems to me, is the key. We need to focus more clearly on education and trying to change attitudes where that is a problem. It is a problem in many countries, as you know, in terms of the education of girls and women.

Senator MIKULSKI. So we have now outlined the problem. You think that the focus on this particular age group is a much needed and warranted one. What next?

Ambassador WOODS. What is next is a balanced A.I.D. program. I happen to think that the major thing that we can do in education is not to try to fund education programs in each one of the countries where we operate, but to provide leadership to the educational management and the educational administration in those countries so that they are more aware of the importance of educating the women in that age group.

Senator MIKULSKI. I think I want something tougher, stronger, clearer, bolder. We are not going to do this today at a hearing. It is not the nature of the forum, but I do know that this committee earmarked funds for basic education to provide education for girls. As I understand it, A.I.D. opposed that earmarking.

Ambassador WOODS. As a matter of principle, Senator, I tend to oppose any earmarking.

Senator MIKULSKI. You might oppose the earmarking, but my question then is how do we get to the heart of the problem, recognizing as always the cultural and legal barriers in many countries?

I feel that the two most important things we can do for young girls around the world is give them the ability to read and by the time they are 15 the knowledge of how they can practice birth control. It will take them beyond their village and take them beyond any other means to control their lives.

I will not drag you into the birth control issue, which I now see we call "child spacing"; however, literacy training for these young girls and vocational education would be the two directions that I would strongly advocate.

Ambassador WOODS. I do not disagree with you. When I said that education is a critical issue, I was referring also to the question of literacy.

### EDUCATION ACCOUNT

The point I would make about the education account, however, is that when funds are earmarked for basic education in that account, we are taking funds away from the participant training program, the vocational education program, the Women in Development program, and the labor programs. I think we have to watch very carefully the balance among all of those important programs.

We also have to determine where our comparative advantage lies, and I think our comparative advantage in education probably lies in trying to get countries to broaden their educational programs for women through administrative mechanisms, not trying to run female literacy programs.

The cost of doing that, given the number of women in the world, is far beyond the capacity of our budget. I might wish that that were not the case.

Senator MIKULSKI. But you do it for the men in the world, and it is beyond the capacity of the budget. I do not want to get into that here.

Mr. Chairman, I would really like our new A.I.D. administrator, whom I have real respect for, to continue further dialog with the staff on how we might be able to approach this.

One other last point, as I mention women at the head table, I also note that there are no people of color. I would like the record to reflect that because that is really who A.I.D. serves primarily.

Thank you, Mr. Chairman.

Senator INOUYE. As always, your questions are the most perceptive here. I thank you very much.

Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

I want to follow up for a moment on the comment that the chairman made to reemphasize the degree of concern we have over the sole question of what took place in Costa Rica.

It is important to recognize that this episode followed one in which similarly harmful management conduct was uncovered in A.I.D.'s Equador program. The difficulty is not just the couple of scholarships which may have been awarded to people who might not have needed them and that the process may not have been businesslike and correct. More important is the repeated and regular visits to both Ecuador and Costa Rica by senior A.I.D. Washington officers, who apparently never detected problems in Costa Rica even though there were questions and rumors and discussions that the three A.I.D. Washington people never detected problems or if they did, and this would be even worse, they either covered up or chose to look the other way when they thought these kinds of things might be going on.

Have you been able to determine how these breakdowns of management and control and direction and oversight occurred?

Ambassador WOODS. First of all, I will use the scholarship program as an example of the broader question so that we can better understand how these problems can be missed.

The total scholarship program in Costa Rica in the period covered by the Inspector General involved about 1,100 scholarships. Among those 1,100 scholarships, the IG initially identified 17 and later revised that to about 11 that represented real problems.

That is a very large amount of detail for an A.I.D./Washington visitor to become familiar with. It seems to me that the management deficiency that was most evident in Costa Rica was lack of clear guidance on how local currencies were to be used.

In the case of the Costa Rica scholarship program, it does not seem to be a lack of guidance, but a lack of judgment.

Senator KASTEN. Well, let me follow that a little bit because, as you said, the mismanagement in Costa Rica to a considerable extent revolved around the handling of substantial amounts of local currency derived from our A.I.D. program there. This is reported by both the GAO and the IG's office.

In effect, it disclosed a pattern of problems over the control, accountability and effective programming of local currencies which over all represent a significant foreign resource.

I want to talk about the bigger question here, not whether it was 17 or 11. The question is how can the system work when Ecuador and Costa Rica were problems, and now in retrospect a large number of people either had their eyes closed or chose to close them or just decided to concentrate on other kinds of things.

Now, are there any thoughts or conclusions about making more efficient and effective use of local currency just in general? Do you need legislative direction? Should we impose some kind of limitation?

We do not want to start micromanaging, but as larger amounts of host country-owned local currency become available, and I think that may be the trend in at least some of these countries, and through the increase in your use of ESF cash transfers which is also the local currency, are we going to see this problem getting under control by the work that you and your oversight people can do, or are we going to have to get into this business?

Ambassador WOODS. I think we have addressed at one level and will continue to examine the uses of local currency. It is a complex problem, and there were some unique circumstances in this country which were not in evidence, I have discovered, elsewhere. I think that has to be taken into consideration as well.

It is a problem that has been addressed. We are changing the way we manage the Costa Rica program, and we have changed and given further direction on the use of local currencies in other countries as well.

I am not completely satisfied with our response to this problem, and we are still working on it. Earlier I described the senior staff meeting mechanism. We had a senior staff meeting on this subject about a week ago, and it is clear to me that we have to go further to tighten up our procedures.

Senator KASTEN. It would be a heck of a lot better if you tighten them up than if we start tightening them up, but we are getting there.

Ambassador WOODS. Well, it is complicated.

### LEGAL ACTIONS IN COSTA RICA

Senator KASTEN. I have another question which relates to what the chairman said earlier. I do not know what kind of a quasi-judicial, legal or other process you go through, but it would be helpful to the committee if you provided a schedule of the steps that are under way in dealing with the problem in Costa Rica and the particular people who were involved, so that you can tell us that X investigation should be concluded at a certain time, and upon completion of that investigation the next step is this, and that will take us a month or 2 months or whatever.

Go through the steps for us so that we can judge the degree to which this whole kind of investigatory process is taking place, because, clearly, this was a major problem.

Ambassador WOODS. I might add that the first step in that process is a judgment on the part of the Inspector General as to whether an illegal act has occurred, and if so, those cases get referred directly to the Department of Justice.

In this particular circumstance, the Inspector General judged that no crime had occurred, and so it then went immediately into our employee discipline process. Again, because you are dealing with people's lives and careers, due process needs to be respected.

Senator KASTEN. Just give us the steps so we can figure out what is going on.

[The information follows:]

## THE COSTA RICA PROGRAM

On May 26, 1987, the Inspector General (IG) informed the Acting Administrator of a number of problems discovered by the IG audit of the USAID/Costa Rica Program Development and Support and local currency accounts. None of these problems were identified to be criminal in nature. Based upon these preliminary findings, the Latin American and Caribbean Bureau (LAC) obtained three individuals, on detail, from other parts of the Agency and sent them to Costa Rica to review the situation. After reviewing the documentation in Costa Rica for a short period of time, they prepared a report. These findings and recommendations were tentative due to the limited timeframe for their evaluation, but the report provided input to the IG for developing their final report and helped LAC to initiate corrective actions.

The IG met with selected A.I.D. Mission staff on their draft findings on April 30, 1987. Based upon this meeting, the Mission initiated an internal evaluation into all of the problem areas identified. Files were compiled on each problem area and an analysis of the relevant documents was conducted. The IG issued their final manager to manager letter with attachments on October 9, 1987.

LAC Assessment: An A.I.D./Washington three-person team went to Costa Rica in October 1987, and over a two-week period, conducted an independent examination of the issues and questions raised, especially in the areas of scholarships, local currency management and program oversight. The LAC Bureau considered the team's findings and a series of additional actions were identified and completed.

The role of various A.I.D. officials was reviewed separately. The Agency Administrator designated the Counselor to the Agency, the Office of the General Council and the Office of Personnel to examine the role and conduct of those individuals.

Personnel Actions: With respect to questions concerning the conduct of the Mission Director, these are being processed in accordance with procedures which have been established to ensure due process for Foreign Service Officers who are charged with misconduct, poor performance, poor judgment or similar acts. The regulations are found in Agency Handbook 30, Chapter 5, which incorporated uniform regulations at 3 FAM 760 (Foreign Affairs Manual). In effecting a disciplinary action, the procedures required are designed to protect an officer against the possibility of an unwarranted or unjustified action which could be harmful to his/her career. For example, the following actions would be taken in a given case:

-- A member of the Personnel Office staff would travel to the A.I.D. Mission on a fact-finding mission to review records, interview staff and gather evidence for use in determining whether disciplinary action is warranted.

-- Subsequent to the fact-finding mission, and if circumstances so indicate, a proposed disciplinary action would be formulated stating specifically the charges of misconduct, wrongdoing or poor judgment based on the evidence of record.

-- The charged officer is then provided an opportunity to respond to the allegations. If the officer is in A.I.D./Washington, he/she must respond within 15 days. The time period may be extended for cause.

-- Upon submission of the employees response, the deciding official may:

1. Sustain the action proposed.
2. Effect a lesser disciplinary action.

3. Withdraw the charges.

-- In the event the Agency decision sustains a proposed disciplinary action, the officer has the right to grieve that decision to the Agency within three years of the date of the adverse action. The Agency has up to 90 days to act on such a grievance.

-- After those 90 days, if the agency denies relief on the action grieved, the officer may grieve to the Foreign Service Grievance Board (FSGB), within 60 days, to seek relief.

-- Then the FSGB would open a Record of Proceedings (ROP) and begin what amounts to a de novo review of all the circumstances and evidence presented by the grievant and the Agency. This is a lengthy (six months or more) process and involves such legal processes as a preliminary hearing, compilation of evidence, discovery, motions, closing of the decision by the FSGB which may sustain the Agency action, fashion a compromise, determine a lesser penalty, or find for the grievant and dismiss the charges. These procedures are being followed in connection with the Costa Rica matter.

-- In the event the entire procedure was necessary, the process could take up to one and one half years.

The procedures described above are typical and conform, in a general sense, to the same types of procedures and protections afforded to Civil Service employees in adverse actions where the reviewing authority is the Merit Systems Protection Board (MSPB). The officer concerned has the right to legal counsel (or other representation) and access to any evidence relied upon by the Agency in presenting any such charges.

Corrective Actions: While the above personnel process was moving forward, the LAC team, mentioned above, found that while USAID/Costa Rica and the LAC Bureau had taken many actions prior to the IG letter which addressed concerns raised in that letter, additional actions to improve management practices were required.

The IG identified seventeen questionable scholarship awards. The team found that there were problems in the scholarship area. Four were processed outside the approved selection system and two of these failed to meet existing program criteria. This supported the IG findings.

The team also found an additional scholarship involving both Washington and the Mission which violated the established criteria and procedures.

Based upon the team's findings and recommendations, USAID/Costa Rica was advised by A.I.D./Washington to submit a bill of collection to one of the sponsoring Costa Rican entities for the repayment of the scholarship. A.I.D. was repaid for that scholarship in March, 1988.

In the area of local currency programming and management, ownership and control of these resources were not adequately defined in a way that would establish clear accountability standards and stand up well to subsequent public scrutiny. A number of corrective actions were taken prior to, and in response to, the IG report. The committee was advised previously, on February 26, 1987, of the details of the actions taken.

Overall, A.I.D. is very proud of the Costa Rica program and we are satisfied that the USAID Mission in Costa Rica is now operating the way it should. In spite of the management problems experienced, the Costa Rican program has had many innovative accomplishments and has made excellent progress in stabilizing the economy and renewing growth through greatly improved economic management, ambitious privatization efforts, and an aggressive, highly successful effort to increase non-traditional exports.

With respect to Ecuador, which was also mentioned, the first evidence revealing the initial problems was developed by an internal management assessment by the LAC Bureau. The results led to the replacement of the Controller and the assignment of a new Mission Director who proceeded to discover the serious problems later confirmed by the IG following an investigation requested by the LAC Bureau. The IG review then examined these issues in greater detail. All identified problems have now been corrected.

## SURPLUS DAIRY

Senator KASTEN. I just have a couple of quick questions. First of all, there is an earmark of up to $5 million for development projects using surplus dairy products.

What is A.I.D. doing vis-a-vis this earmark and these products? What kinds of projects are receiving this assistance? Where will the $5 million be spent?

Ambassador WOODS. There is a problem with that earmark, in that the Secretary of Agriculture determines what surplus products are available to A.I.D. for the 416 program. Because of the low levels of surplus dairy products, USDA has not designated dairy products for the 416 program this year.

We are, however, continuing to use dairy products in our title II feeding programs.

Senator KASTEN. We will follow up and work with you.

## WORLD WILDLIFE FUND

One final question. What is the status of the grant application before A.I.D. from the World Wildlife Fund to provide for the operation of the ivory quota control system? All of us are aware of the problems with ivory and in Africa. Where are we in that grant application?

Ambassador WOODS. I had not heard of that grant application until just before I came to the hearing this morning. I tried to find out the status of it and was unable to. I will have to supply that for the record.

Senator KASTEN. I am told that without this grant, the international control program on the illegal export of ivory may cease to operate. The grant request is for $80,000. We are anxious to work with you on that.

Mr. Chairman, I have a number of other questions which I would like to submit for the record, but at this time I just want to thank you for your attention.

[The information follows:]

### ENDANGERED SPECIES MANAGEMENT—AFRICA IVORY

The proposal has been technically reviewed and approved by the A.I.D. biological diversity working group and a decision has been made to provide $50,000 for this activity. The grant document is being prepared.

### FEMALE CIRCUMCISION

Senator **Inouye**. I would like to follow up on the questions of Senator Mikulski. In recent months I have received a couple of letters inquiring about a practice that is carried out in certain very orthodox Moslem countries, especially along the eastern side of Africa. I believe it is called clitoridectomy.

The writers suggest that by providing health care we are, in essence, supporting this religious practice. Any words on that?

Ambassador **Woods**. I have for some time prior to coming to A.I.D. been acquainted with that particular practice which was formerly a common and fortunately, in today's world, a substantially less common practice.

I find it hard to imagine and would frankly be quite horrified if I discovered that our health care programs played any role whatsoever in the performance of that activity, but the question has never been asked of me.

I just cannot imagine that we would allow that to occur, but I would have to look into it.

Senator **Inouye**. Your policy would not support any practice of that sort?

Ambassador **Woods**. I just cannot imagine it. As I say, I would be horrified if I discovered that to be the case.

### GRANT APPLICATION

Senator **Inouye**. Finally, if I may ask about something that relates to Hawaii, recently a joint proposal was submitted by the Oceanic Institute and the Hawaii Institute of Tropical Agriculture and Human Resources. I believe that these organizations can make a rather valuable contribution to A.I.D. and to the development of systematic approaches to biotechnology research and related fields of agriculture.

I was hoping that your Science and Technology Bureau can take a good look at the proposal. I am very supportive of this.

Ambassador **Woods**. We surely will, Senator.

Senator **Inouye**. All of us have many questions to submit.

Do you have any questions?

Senator **Mikulski**. No, Mr. Chairman. With the questions that I have already asked, I think if I got those answers and we moved on that, than I would be hardy in my enthusiasm.

### SUBMITTED QUESTIONS

Senator **Inouye**. We would like to submit to you and your staff questions for responses.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### INTERNATIONAL MARKET COMPETITION IN RENEWABLE ENERGY

SENATOR INOUYE: I understand that the Japanese and Germans have surpassed the United States in federal research and development spending for photovoltaics (PV).

Under an increasingly competitive market for PV, how does the proposed 30 percent cut for FY 1989 for U.S. R&D ensure that the United States will maintain its technological lead and world market share?

AMB. WOODS: This is a Department of Energy program, not an A.I.D. program and I am not familiar with that Department's request level for photovoltaics research and development.

SENATOR INOUYE: The OECD nations have set aside a $5 million export assistance fund for renewable energy for FY 1988. The OMB proposal to cut the FY 1988 international line item from $800,000 to $750,000 for renewable energy export activities seems to indicate less interest in maintaining our international markets vis-a-vis our competitors.

Why is there a cutback?

AMB. WOODS: Like the first question, this refers to the Department of Energy budget, not the A.I.D. budget. In this case, I have no knowledge of the reason for the reduction to which you refer.

### HIGH TEMPERATURE SOLAR TECHNOLOGY

SENATOR INOUYE: Five European nations have established a Phoebus consortium to promote high-temperature solar central receiver technology in overseas markets. The United States leads for the moment in stressed membrane heliostat and dish technology.

How does the federal research and development program plan to situate U.S. industry to compete internationally using the gains made in the current R&D effort?

AMB. WOODS: The program to which you refer is funded by the Department of Energy, and neither I nor my staff have any familiarity with it.

SENATOR INOUYE: How will further cuts maintain any capability to pursue this goal?

AMB. WOODS: As I mentioned, I have no knowledge of this Department of Energy program.

### SUPPORT FOR BIOLOGICAL DIVERSITY INITIATIVES

SENATOR INOUYE: A recent study by the Office of Technology Assessment pointed to the need for the Federal Government to assume a greater role in protecting the genetic diversity of the world's wildlife species. Among its many suggestions, the report recommended that Congress direct A.I.D. to acquire increased conservation expertise in support of biological diversity initiatives.

What is A.I.D. presently doing to support biological diversity initiatives?

AMB. WOODS: Last fiscal year (1987) was a landmark year for A.I.D.'s evolving program to conserve biological diversity. A.I.D. obligated $2,388,000 for 21 new activities in 15 developing countries to protect and conserve wild plants and animals, as authorized in Section 119 of the Foreign Assistance Act. We obligated another $2,500,000 for biological diversity activities as part of other Agency projects. We took other major steps that have provided a solid foundation on which to continue to build the program. For example:

1. A.I.D. established an internal Biological Diversity Working Group with responsibility for reviewing new projects and setting priorities.

2. The Agency promoted formation of a donor group, the Consultative Group on Biological Diversity, composed of U.S. private foundations and A.I.D.

A.I.D. is now engaged in programming fiscal year 1988 funds, $4.5 million, for new activities to directly protect and conserve wild plants and animals.

SENATOR INOUYE: Has A.I.D. acquired the necessary expertise? Do you have expert personnel on board?

AMB WOODS: The Agency has been taking steps to increase its professional capabilities in biological diversity and other natural resources areas through recruitment and training. During FY 1987 and in FY 1988, we have been recruiting people with technical skills in these areas. The positions are for Foreign Service and Civil Service employees in Washington and overseas. We are supplementing these direct-hire positions by additional contractual arrangements.

Over the past year, we have hired 12 additional professional staff with natural resource expertise. We brought nine of these into the Agency through the International Development Intern (IDI) program; they will be assigned overseas. Our Agency will continue recruitment in 1988 through the IDI program and will add a biological diversity advisor--a new position in Washington.

The Office of Personnel Management has also commissioned an analysis of direct-hire staff training needs to develop a strategy for the Agency for long- and short-term training in forestry, environment, natural resources, and biological diversity fields.

SENATOR INOUYE: The OTA report also recommended that a new account be established within the A.I.D. budget to support biological diversity initiatives identified in the Foreign Assistance Act. Sections 117, 118, 119 of the Act all define congressional interest in conservation as an integral aspect of development. With the exception of the 1987 earmarking funds for biological diversity, no formal funding source has been attached to these sections.

Would you favor such an approach?

AMB. WOODS: To address these issues effectively, A.I.D. must integrate concerns for biodiversity and tropical forests into the Agency's broader efforts in environmental protection, natural resources management, and agricultural production.

Rather than programming segregated funds for a separate and highly specialized activity, we believe that conserving biological diversity is critical enough to warrant integration into our overall development program. A separate and formal funding source would discourage the integration of biodiversity activities into the normal budget and project planning process.

## BIOLOGICAL DIVERSITY STRATEGY AND PLANNING

SENATOR INOUYE: Three years after Congress received a report indicating that A.I.D. had no strategic approach in promoting initiatives for the maintenance of biological diversity, the problem still persists. I understand that comments received from A.I.D. overseas missions suggest that problems exist in translating the general principles and recommendations of an Agency plan into specific initiatives at the country level.

Is there still a difficulty in translating principles into practice?

What leadership have you exercised to overcome this problem?

AMB. WOODS: Over the past three years, the Agency has taken several important steps to better rationalize and define its approach and strategy in biological diversity. Following the initial Biological Diversity Action Plan in 1985, we developed in 1986 a regional strategy for A.I.D.'s Asia and Near East Bureau, and in 1987 biological diversity concerns were integrated into the Plan for Supporting Natural Resources Management in Sub-Saharan Africa.

We have greatly improved our understanding of practical applications of biological diversity within the context of A.I.D.'s development programs. As I indicated earlier, during fiscal year 1987, we funded some 44 discrete biological diversity activities at a level of over $4 million.

We have continued leadership provided through A.I.D.'s internal Biological Diversity Working Group and externally through the Consultative Group on Biological Diversity. We are conducting studies to examine the programs and strategies of key international development and conservation organizations over the next year in order to provide a better basis for defining the most effective role and focus for A.I.D. efforts.

## A.I.D. COMMITMENT TO CONSERVATION ISSUES

SENATOR INOUYE: I understand that the United States has begun to abdicate leadership in international conservation efforts in the area of biological conservation, with the result that international initiatives are weakened or stalled in the tropical regions where diversity losses are most severe.

In your view, what commitment should A.I.D. be making to long-term biological conservation issues over the next five to ten years?

AMB. WOODS: A.I.D. continues to be the recognized leader among bilateral and multilateral donor agencies in the area of biological conservation. As part of our biodiversity program, we fund resource inventories to identify ecosystems for protection, the establishment and maintenance of wildlife sanctuaries, and training, education, public awareness, and institution-building to improve host-country capacity to prevent species loss.

We also fund biodiversity research which will allow us to adapt our strategies to changing conditions and opportunities. Our field missions are including in their country development strategy statements or other country plans strategies for conserving biological diversity and tropical forests. We work with other donors to ensure that their development activities are environmentally sound. In addition, A.I.D. has formed the Consultative Group on Biodiversity to encourage cooperation and coordination among the major foundations.

Our commitment to protecting biological resources is long-term because these resources are inextricably linked to A.I.D.'s efforts to improve human health, increase rural incomes, develop sustained agricultural and forest production, and restore degraded lands. Together, these are critical to the Agency's overall goal of promoting economic growth.

## SUPPORT FOR CONSERVATION DATA CENTER AND PVOs

SENATOR INOUYE: What is A.I.D. doing to facilitate the establishment of country-level conservation data centers to monitor and institutionalize the protection of wild plant and animal species?

AMB. WOODS: A.I.D. provided grants from the fiscal year 1986 funds allocated to biological diversity to the U.S.-based The Nature Conservancy (TNC) to help support conservation data centers in Bolivia, Costa Rica, Panama, and Peru. These Centers will provide information on biological diversity for use in conservation and development planning in those countries.

A.I.D. was a major sponsor and participant in a workshop entitled "Towards an Improved System of Information Management for Natural Resources Data," held in Costa Rica in February 1988, as part of the International Union for Conservation of Nature and Natural Resources (ICUN) 17th General Assembly. A.I.D., the World Bank, IUCN, the United Nations Environment Programme, The Nature Conservancy, Conservation International, and representatives from many other organizations participated. The objective of the workshop was to explore ways in which international data producers and data users could jointly help developing countries get access to and make better use of timely, accurate, valid data on natural resources.

The participants agreed that a forum should be established to address the difficult issues of data comparability, sharing of information, accessing timely information, and supporting the development of conservation data and information centers in developing countries.

SENATOR INOUYE: What support does A.I.D. provide to private voluntary organizations engaged in wildlife preservation?

AMB. WOODS: A.I.D. utilizes both host country, U.S., and international private voluntary organizations (PVOs) and non-governmental organizations (NGOs) to increase the impact of projects and to support new development activities requiring innovative approaches and local on-site participation.

During FY 1987, A.I.D. made several grants to the World Wildlife Fund-U.S. The grants are related specifically to wildlife preservation. Activities include wetland management plans in Niger River Delta, rhinoceros sanctuaries management in Kenya, greater one-horned rhinoceros habitat management in Nepal, and sea turtle nesting site management along the Thailand coastline.

Other PVOs participating in recent A.I.D.-funded projects involving attention to wildlife have included the Belize Audubon Society, The Conservation Foundation, the Neotropica Foundation, Wildlife Fund Thailand, and the African Wildlife Foundation.

A.I.D. is also working with these PVOs to set in motion donations of LDC debt, to be swapped for project-specific local currencies, from U.S. banks as allowed under IRS Ruling 87-124. We see significant potential for such debt-for-development swaps in the next year in sustaining the work of environmental PVOs in A.I.D. countries.

ENVIRONMENT

SENATOR INOUYE: The twin problems of deforestation and desertification are taking a heavy toll on many of the fragile ecosystems in the developing world. Perhaps nowhere is the situation more serious than in the Sahel where over 400 square mile of productive pasture land are consumed by the desert every year.

What success has A.I.D. had in returning spoiled farm and pasture land in the Sahel to productive use?

AMB. WOODS: A.I.D. has made substantial contributions to both the development and extension of viable technologies to restore the productive capacity of farm and pasture lands in the Sahel. Extension of these technologies are at times constrained by (1) national policies which do not reward good stewardship of resources, (2) poor linkages among host country agencies and donors, and (3) lack of appropriately trained host country personnel. A.I.D. is involved in all these fronts as illustrated below:

Forest Land-Use Planning Project (FLUP), Niger. This project has developed technologies which make management of natural forests economically viable and has assisted in the establishment of an agreement between the Government of Niger (GON) and a woodcutter's association. This agreement allows entrepreneurs to conduct sustained yield harvests under a joint management plan. From the FLUP example, the GON and other donors have initiated a number of other managed forests in Niger. While the FLUP approach is not a panacea to all economic and environmental problems in the Sahel, one can now see ahead to when major portions of the Sahel would be better managed for sustained yields of crops, forage and wood through collaborative actions between farmer-entrepreneurs and the central governments.

Windbreaks in Niger. A.I.D. has assisted Cooperative for American Relief Everywhere (CARE)-Niger and the GON in establishing windbreaks in the Majjia Valley of Niger. The first windbreaks were established in 1974 and now cover some 3,000 hectares in the Valley. Research data indicate that average cereal yields have been increased by 15 to 20 percent. Besides increasing crop yields, the windbreaks have also spawned a number of related actions including (1) an active private sector involvement in the sale of construction poles and seedlings, (2) a serious policy dialogue about tree tenure, and (3) a substantial reduction in soil erosion. This technology has gained farmer acceptance and is being extended to other parts of Niger, as well as in Mali.

Acacia Albida Field Trees. A.I.D. has supported Private Voluntary Organizations (PVOs) and Peace Corps in establishing this agroforestry species in Niger, Senegal, Chad, Mali, and other countries. This species, little known outside of the Sahel, but a major contributor to soil fertility in the Sahel, has been documented to have doubled cereal yields. But, under demographic pressures and the harsher climatic conditions of the last twenty years, regeneration of the Acacia albida has decreased. In order to increase the productive capacity of Sahelian soils, A.I.D. is continuing to work on strategies to regenerate this tree over wider areas of the Sahel.

SENATOR INOUYE: A recent report of the Office of Technology Assessment noted that A.I.D.'s regional strategy statement for the Sahel is ambiguous, and questions remain regarding its interpretation and implementation.

How do you respond to the criticism that A.I.D.'s development strategy fails to address such key development concerns as: establishing priorities in allocating resources among ecological zones, the need for a Sahel-specific research plan, a strategy for livestock, and a consistent approach to population issues?

AMB. WOODS: The Africa Bureau and the A.I.D. Missions do have appropriate strategies which deal with each of these concerns. The following Africa Bureau strategies guide the program and project investments that are made:

- the Natural Resources Management Plan (1987)
- the Agricultural Research Strategy (1986)
- the Livestock Strategy (1982)
- the Population Strategy (1988)
- individual A.I.D. Mission Country Development Strategy Statements (various dates)

A number of these strategies have emerged since the publication of the OTA Special Report, have benefited from its observations, and address many of the issues raised. Although the Sahel Development Program (SDP) has been absorbed in the recently created Development Fund for Africa (DFA), there is continued work by the Africa Bureau on the natural resources, agricultural research, livestock and population sectors in the Sahel.

The Natural Resource Management Plan deals with the question of ecological zones and gives guidance to the A.I.D. Missions for incorporation of natural resources issues in the Country Development Strategy Statements (CDSSs) and investment programs. The Plan has been followed up by a series of very detailed country Natural Resource Management Assessments. These are proving useful in identifying region-wide approaches that strengthen the impact of investments in natural resources.

With regard to agricultural research, the Africa Bureau strategy of 1986 sets the framework within which research efforts are supported. The issue of relative emphases on food crops or export crops will be receiving increased attention, and is incorporated in recent guidance to the missions on the implementation of the Development Fund for Africa. Many strategy and funding decisions must necessarily be made at the country level, as it is necessary to take into consideration relative resource endowments and the plans of other donors for funding parts of the research agenda in such areas as the amount of support to be given to irrigated and dryland crops.

With regard to livestock, a conference will be held in June entitled Animal Agriculture Symposium: Development Priorities Toward the Year 2000. Its purpose is to attempt to synthesize experience from the field, assess donor policies and strategies for assistance to this sector, and focus on the development and refinement of regional strategies in the livestock sector. It will contribute significantly to the next stage of thinking on the role of livestock investments in the Sahel.

With regard to population, the Africa Bureau is just completing an updated strategy. The new strategy improves the specification of the technical means of achieving lowered fertility rates, and sets out ways in which the private sector can contribute to better child spacing programs.

In general, there is a constant effort to review and revise strategies based on implementation experience. Monitoring and evaluation of these investments take place in many ways. These include semi-annual implementation reviews, biannual reviews of

Mission Action Plans, and Country Development Strategy Statement revisions which occur no less than once every five years. The OTA Special Report has made a useful contribution to these efforts as applied to the Sahel and to Africa more generally.

## DEOBLIGATION-REOBLIGATION AUTHORITY
## A.I.D. REPROGRAMMING

SENATOR INOUYE: Reductions in A.I.D.-funded projects in effect make funds available for obligation to other existing projects or to new projects which are not recorded in the CPD.

Can any correlation between project increases and reductions be made (i.e., can the funds made available for proposed new obligations be associated with specific project reductions)?

AMB. WOODS: No. Projects are not reduced because another activity requires funds, nor are projects increased solely on the basis of utilizing deobligated funds. Project reductions occur only when specific performance by the host country makes project implementation impossible or protracted, when contractual problems arise with staffing or commodity deliverables or when the project was poorly designed or in some other way inappropriate. Projects are increased based on the need for additional work or increased cost of some phases of the project, or when the project is particularly successful, expanding the original scope of the activity.

SENATOR INOUYE: At the time A.I.D. reduces or deobligates funds, how is the integrity of the funding maintained? That is, how do you ensure that the funds are used for the same general purpose when they are reobligated?

AMB WOODS: As you are aware Senator, the Agency has numerous functional accounts and other developmental and economic accounts to which funds are appropriated. These accounts are identified through separate Treasury accounts or subaccounts. When a project is reduced, the accounting information associated with the individual transaction is maintained and the Agency reobligates these funds within the same account from which they were deobligated.

SENATOR INOUYE: Are the reallocations tracked to maintain integrity?

AMB WOODS: Yes. The accounting system we have automatically tracks the reobligation by account. Project detail concerning the deobligation and reobligation is also maintained.

## OZONE DEPLETION

SENATOR INOUYE: Scientists now predict that present concentrations of CFCs in the lower atmosphere are already so high that the pollution of the layer by ozone-destroying compounds will double by the year 2030, even if the Montreal agreement is fully observed. Even if CFC production were halted now, pollution of the layer will inevitably increase 60 percent above its present value.

Given the gravity of the ozone crisis which now confronts this country and the world, what is A.I.D. doing to ensure that its policies are not contributing to ozone depletion?

AMB. WOODS: A.I.D.'s ability to influence the resolution of this problem is negligible. Virtually all chloro fluorcarbons (CFCs) are produced in the industrialized countries, and an overwhelming majority of the use also occurs in those countries. The use of CFC-containing products in developing countries (a use in which A.I.D. activities have been insignificant) has occurred because no alternatives were available in products obtained from industrialized countries. Resolution of the problem must come from the use of "safer" CFCs (those having less effect on ozone concentrations), the development of substitute chemicals, and increases in the efficiencies of some relevant products, such as refrigerators. The U.S. State Department played a major role in negotiating last fall's Montreal Protocol on this topic, and U.S. manufacturers of CFCs have declared they have initiated a transition to substitute chemicals. A.I.D. is completely supportive of these developments.

## ENCOURAGING RENEWABLE ENERGY

SENATOR INOUYE: In view of the fact that much of the developing world cannot possibly fuel its economic growth with oil and coal, what effort is U.S.A.I.D. making to encourage use of renewable energy sources such as wind energy?

AMB. WOODS: A.I.D. has funded more than sixty projects during the past decade that featured renewable energy technology as an important, or the exclusive, component. I will summarize these efforts later in this response.

But first, I think it is important to clarify A.I.D.'s perspective regarding the premise of your question. Certainly oil imports cause a serious financial strain for most developing countries. Minimizing future needs for oil by identifying and exploiting cost-effective alternatives is in the interest of those countries and in the interest of the United States (lower oil demand means lower prices). Such identification and exploitation of alternatives is one of the principal goals of A.I.D. energy policy. I would like to add that efficiency improvements are an important part of A.I.D.'s strategy, in some ways more immediately relevant than alternative fuels.

However, for a variety of reasons, including economic ones, a portion of economic growth in less developed countries will continue to be fueled by oil for a number of years, especially in the transportation sector. This is not only possible, but inevitable. Minimizing this portion, not eliminating it, is the practicable goal.

Using coal is one of the ways that some LDCs can minimize the need for imported oil. Several countries, including China, India, and Pakistan, have major plans to increase their use of coal in order to meet dramatic increases in demand for electricity generation. It is highly unlikely that sufficient economic alternatives will be available in the next decade to prevent a significant increase in coal use in the electricity sector.

Realizing this, A.I.D. believes we must encourage the establishment of reasonable environmental standards and the use of advanced "clean coal" technologies, which are both more efficient and emit fewer dangerous residuals.

However, the Agency believes that renewable energy, including wind, solar, biomass, small hydro, and geothermal should, and will, play a greater and greater role in the future. We must do what we can to hasten that transition, because proper use of these resources assures sustainability for economic activities that are dependent on them.

We have funded several dozen renewable energy projects, in all geographic regions, over the past ten years. Major projects were recently completed in India, Thailand, the Philippines, Nepal, and Tunisia, and major projects are currently being funded by the A.I.D. missions in Egypt, the Sudan, and Morocco, and by the central Office of Energy. We hope that a proposed major renewable energy project in Pakistan will soon gain the support of that country's government and can begin. In all these projects, we have shifted from demonstrations for demonstration's sake to an effort to fund commercially viable applications that are replicable and economically competitive under similar conditions.

I will summarize some of these current projects. In Egypt, one of three components of the seven-year, $32 million Utility Management and Energy Policy project focuses on renewable energy and emphasizes field tests of technologies, development of an information system, and training. Wind technology will be used to electrify an Egyptian village and to power a desalination project.

In the Sudan, an eight-year, $5.6 million Rural Renewable Energy project is implementing applied research and dissemination for selected technologies useful in rural areas--photovoltaics, briquetting of agricultural wastes for household use, and more efficient kilns and cookstoves.

In Morocco, a one-year, $9.2 million Renewable Energy Development project has established a national renewable energy center that is emphasizing economic and technology assessments and encouraging financially viable private sector opportunities for solar water heaters and wind systems.

The central Office of Energy has a major program of research and development to use biomass for electricity production and is funding two projects that promote the marketing of more efficient cookstoves: a three-year, $150,000 program in Central America; and initial $75,000 funding for a similar program in East Africa.

A number of other A.I.D. missions have encouraged renewable energy technologies as small parts of other projects. The following are only a few examples:

- Photovoltaics have been applied to lighting, water pumping, and refrigeration in Botswana, Djibouti, and Tunisia.
- Small hydro facilities have recently been funded in Liberia and Peru for electricity generation for villages and local small-scale industry, and in Madagascar and Zaire for shaft-power for agricultural processing.
- One of the major emphases of a national Energy Research Laboratory in Indonesia, partly funded by A.I.D., will be investigations of biomass and solar energy possibilities.

A.I.D. recently reviewed its many renewable energy activities of the past decade, and concluded that much potential exists for introduction of renewable energy resources and technologies to serve productive, value-added processes, which would provide increased income, opportunity, and community development for rural areas. These also often present opportunities for U.S. and local companies willing to develop technologies appropriately designed to suit the local conditions and market demand. But because of differing local availability of various renewable resources and the marginal economics of many of the technologies (oil prices, for the time being, are relatively low), applicability usually must be determined on a case-by-case basis. When combined with reticence to try new technologies, this means that progress may be slow, or in fits and starts.

## ENVIRONMENTALLY PREFERABLE ENERGY SOURCES

SENATOR INOUYE: The World Bank has recently taken the position that economic growth and preservation of the environment must be equal goals for future development. This seems to imply that environmentally preferable energy sources such as renewable energy should be made a high priority.

Would you agree? If so, what specific steps could A.I.D. take to promote greater use of renewable energy by developing countries?

AMB. WOODS: Recently the World Bank has increased its consideration of environmental concerns in the development process, including in the energy sector.

I agree that such considerations are very important, and our efforts in efficiency improvements and clean coal technologies, as well as renewable energy, have environmental criteria as one of their motivations. When these criteria are ignored for a narrowly defined economic gain, the results will often be longer term health problems for the population at large or a degradation of the environment that in turn affects the very productivity of the economic system. Long-term sustainability of the system itself, then, is at stake.

A.I.D. has funded more than sixty projects that included an important, in some cases exclusive, renewable energy component (not counting forestry projects that include increased fuelwood supply as one of several benefits). Major projects were recently completed in India, Thailand, the Philippines, Nepal, and Tunisia, and major projects are currently being funded by the A.I.D. Missions in Egypt, the Sudan, and Morocco, and by the central Office of Energy. These projects cover solar, wind, geothermal, small hydro, and biomass technologies. We believe that the use of biomass residues for electricity generation provide exciting opportunities, and more than one-fifth of the entire budget of our central Office of Energy is devoted to this single category of energy resources. Photovoltaics are still too expensive for more than very selected applications, but we are promoting those applications and have hopes that costs will come down sufficiently in the next ten years to allow much more widespread application.

A.I.D. is also an active participant on the Committee on Renewable Energy Commerce and Trade, a multi-agency entity led by the Department of Energy. In this role, the Agency has been providing assistance to the renewable energy equipment manufacturing community by providing informational and marketing assistance. During 1988 and 1989, the preparation of comparative guides for technology evaluation and selection, assistance to trade missions and inter-agency project tracking will all help U.S. industry and at the same time provide end-users with the information necessary to make better decisions and to consider renewable equipment as a viable alternative to conventional energy conversion applications.

Progress with renewable energy is slow, because of the momentum of conventional energy sector practices and the fact that economic competitiveness for renewables is usually determined on a site-specific basis. But A.I.D. believes that the cumulative effect of numerous activities funded by itself and other aid agencies will quicken the shift to a more sustainable energy system.

## ENERGY PROGRAMS

SENATOR INOUYE: To what degree have U.S. A.I.D. programs such as PACER (Project for the Acceleration of Commercial Energy Resources) and PACT (Project for the Acceleration of Commercial Technologies) been used to develop renewable energy products?

AMB. WOOD: PACER deals with energy technology; PACT deals with non-energy technology.

PACER is in a preliminary stage. The Government of India approved PACER in August 1987, and is now soliciting and receiving proposals for funding specific research and development or commercialization projects. Several innovative proposals have been received from individual firms and consortiums to commercialize renewable energy technology. The first grants will be awarded later this year, and the first results will be available in two to three years.

## SMALL BUSINESS AND RENEWABLE ENERGY

SENATOR INOUYE: Many U.S. renewable energy companies are small businesses. What actions has U.S.A.I.D. taken to promote small business participation in its programs?

AMB. WOODS: It is true that small businesses comprise an important part of the renewable energy industry. Much of A.I.D.'s work in renewable energy directly benefits such businesses. For example, one of our largest renewable energy projects is our Bioenergy Systems and Technology project, and an overwhelming majority of the contracts let by that project (other than those to research institutes such as Princeton University) have been to small businesses.

Because so many renewable energy companies are small, our work with industry-wide associations presumably assists those small businesses. A.I.D. is directly supporting the U.S. renewable energy industry through our participation in and contribution to the Committee on Renewable Energy Commerce and Trade (CORECT), a multi-agency entity which is led by the Department of Energy and which includes the Department of Commerce.

A.I.D. chairs the CORECT Education Subcommittee, which provides U.S. industry with information on U.S. Government programs and services in support of trade, and less developed country market opportunities and constraints, and which works to educate developing country individuals and institutions regarding U.S. technology, renewable applications, and market opportunities. Through the Education Subcommittee, A.I.D. is playing the lead role in the preparation of an "Applications Brochure on Agriculture and Health" and "Vendors Catalog" to be completed later this year. The latter brochure will include numerous small U.S. businesses and will be distributed to all A.I.D. missions in the field.

The A.I.D.-chaired Subcommittee is also initiating an innovative training program by which we would help train LDC nationals who are working in cooperation with U.S. businesses through joint ventures and trade promotion. Currently, we are considering funding for at least two training courses that would be offered to LDC nationals who in turn would be employed by joint ventures that included small U.S. businesses.

Finally, the Subcommittee this year will develop the first in a series of comparative evaluation guides that will facilitate objective comparison of renewable with conventional alternatives for specific applications, will support prefeasibility and market assessments in selected countries, and will expand an existing A.I.D. Renewable Energy Data Base by incorporating information on the renewables programs of the other major donor countries, all of which activities should enhance business opportunities.

Small businesses have participated in past A.I.D. renewable energy activities through the provision of renewable energy equipment, technical assistance and other consultancy services. The majority of the renewable energy activities pursued to date have been non-commercial in nature, being aimed primarily at either technology research, development, and demonstration, or at human and institutional development in the areas of renewable energy technology, resource assessment, and planning. Therefore, A.I.D. renewable energy activities have not involved significant sustained procurement of renewable energy equipment.

Small U.S. renewable energy firms attempting to do business in developing countries face significant constraints of a generic nature, such as insufficient financial resources to devote to the expensive processes of identifying and developing business opportunities and partners, and becoming familiar with the multitude of different economic and legal systems. The Market and Technology Access project, designed and managed by the A.I.D. Bureau for Science and Technology, Office of Employment and Enterprise Development, has investigated the processes by which firms in industrial countries (particularly the United States) and in developing countries enter into collaborative ventures that lead to improved market access and/or firm-to-firm technology transfer. The project has initiated efforts to provide assistance to groups of small firms via intermediaries or brokers, who provide services such as market identification, export management, and the structuring of technology transfer agreements.

## INDONESIA TRANSMIGRATION

SENATOR INOUYE: Several years ago the Government of Indonesia embarked upon a controversial transmigration program designed to reduce population pressure in urban areas by settling remote regions of the country. The program has attracted widespread criticism for the apparent lack of concern shown by the Government for the environmental consequences of the program. Since the program peaked in 1986 with the resettlement of 80,000 families from the heavily populated islands of Java, Bali, Maduri and Lombak to less densely populated outer islands, the number of families transmigrating fell sharply in 1987 to around 10,000.

Have any A.I.D. funds been used to finance the Indonesian transmigration program?

AMB. WOODS: In the mid 1970s, A.I.D. funded projects which developed infrastructure, such as roads, in areas where transmigrants settled. Since that project ended in 1984, A.I.D. has provided no funding to support Government of Indonesia transmigration activities.

SENATOR INOUYE: Is A.I.D. active in trying to lessen the environmental impact of the transmigration program?

AMB. WOODS: Degradation of watersheds, loss of biological diversity and habitat, and erosion are just a few of the environmental problems facing Indonesia as a whole, particularly in areas of new land resettlement and intensive cultivation. A.I.D., in an attempt to lessen the overall environmental impact in Indonesia of population and agriculture, is funding research in upland erosion control and conservation (a team from the Soil Conservation Service is currently being funded) as well as other watershed management practices which can reduce negative environmental impacts. In addition, A.I.D. is supporting soils research in areas of Sumatra which typify the same high acid, poor drainage soils found in transmigrations sites. This research should lead to the introduction of food and forage crop varieties and soil management practices that could optimize agriculture production in the transmigration areas.

An interdisciplinary review of natural resource and environmental issues was compiled by A.I.D. in 1987. This study is being used as the basis for new project activities. For example, a new natural resources project is being designed which will focus on policy formulation, enforcement of existing policies and regulations, and strengthening coordination and decentralization of environmental planning and management.

## A.I.D. FRAUD AND MISMANAGEMENT ALLEGATIONS

SENATOR INOUYE: It has been alleged that in 1984 and 1985 A.I.D. was involved in a scheme to raise unappropriated funds through the sale of oil. According to one anonymous report, A.I.D. purchased oil from Iran at approximately $17-$18 per barrel and then sold it to Somalia for approximately $35 per barrel. It is alleged that the profits made from these transactions provided a pool of uncommitted funds outside the supervision and control of Congress.

Do you have any knowledge of these events and whether there is any truth to the allegations just stated?

AMB. WOODS: My predecessor carefully investigated this matter, and A.I.D. has never engaged in such a scheme, or a similar scheme. What the issue may be is a misunderstanding of several normal A.I.D. procedures. A.I.D. has had three commodity import programs (CIPs) in Somalia. Only under the FY 1985 CIP did A.I.D. finance the procurement of petroleum. Under that program, the Somali government contracted directly with petroleum suppliers. In 1985, A.I.D. financed 30,000 metric tons (MT) of crude oil for $7,173,787, or $28.98 per barrel, and under a separate procurement in 1986, A.I.D. financed an additional 30,000 MT of crude and 30,000 MT of refined products, for $8,069,420, or $14.38 per barrel. (American Petroleum Institute statistics indicate that the refiners' acquisition cost for crude oil was $26.76 per barrel in 1985, and $14.55 in 1986.) Both of these procurements were fully competed and contracts were awarded to the lowest responsive bidder. At no time did A.I.D. itself contract for the petroleum, or resell it. Our role, as in all CIPs, was to (assure that adequate acquisition procedures were followed by the importer and (b) pay the cost of the purchase under our standard letter of credit procedures. Neither purchase was made from Iran.

In accordance with the Foreign Assistance Act, Sections 609 and 531(d), A.I.D. required that the Somali government deposit into a special account an amount of local currency equivalent to the amount of the foreign exchange (as is standard under CIPs), to be used for mutually agreed upon development purposes.

SENATOR INOUYE: Has the Agency for International Development ever participated in the oil markets or engaged in commodity trading of any sort? Does A.I.D. maintain a security fund account? What is the purpose of this account? How much money is currently in this account? Who manages this account at A.I.D.? Where in the A.I.D. budget is this fund cited? Is this account funded with monies other than those provided through the normal congressional appropriations process? If so, could you account for these additional funds? Please provide this Subcommittee with a complete accounting of all revenue which flowed into this account since its creation and a complete accounting of all disbursements it has made. I would like you to conduct an internal investigation of these above allegations and provide this Subcommittee with a written report on your findings by June 30. Please advise and coordinate your investigation with the Office of the Inspector General.

AMB. WOODS: To my knowledge, no such security account exists. We have asked the Inspector General's Office about these allegations and they also maintain that there have been no such transactions nor is there any security fund account. Given that both A.I.D. and the Inspector General's Office are unable to substantiate or provide any information on these allegations, this answer constitutes the written report you requested by June 30.

## BUREAU FOR ASIA AND NEAR EAST
## OFFICE OF PROJECT DEVELOPMENT

SENATOR INOUYE: What is the rate of personnel turnover in the Office of Project Development and how does this compare with similar offices in each of the other A.I.D. bureaus?

AMB. WOODS: The Asia and Near East Bureau's Office of Project Development (ANE/PD) annual turnover rate for the years 1987 and 1988, which are the years covering ANE as a combined bureau, were 11 and 7 foreign service positions, respectively, and 6 and 5 civil service positions, respectively. For foreign service, this compares to similar numbers of 5 and 6 (Bureau for Latin America and the Caribbean [LAC]), and 9 and 8 (Bureau for Africa [AFR]). For civil service this compares to 10 and 4 (LAC Bureau) and 6 and 1 (AFR Bureau). Thus, ANE/PD's turnover is approximately the same as similar offices and, in an office staffed largely by foreign service personnel, the result of normal rotational assignment patterns associated with a foreign affairs agency such as A.I.D.

SENATOR INOUYE: Have there been any complaints lodged with A.I.D. authorities against the Office of Project Development, its personnel or programs, by individuals or organizations outside of A.I.D.? If so, what were these complaints?

AMB. WOODS: To the best of our knowledge, no complaints of any nature have been lodged.

SENATOR INOUYE: Please elaborate on the "policy vs. program" issue which according to the management study exists between the Office of Project Development and the ANE geographic offices in the development of the non-mission programs.

AMB. WOODS: I presume this concern flows from the review's reporting of occasional blurring of project development and broader country program policy issues between ANE/PD and the ANE geographic desks. This may be inevitable as most project or program proposals involve policy issues which may require discussion and resolution as part of the design process. Indeed, if there were occasions where PD was not addressing major policy issues, I would be concerned that its quality control responsibilities were not being exercised. I balance this concern against the review's conclusions that:

--"There is almost no evidence of any significant 'turf' issues between this office and others in the ANE Bureau," and

--"Responsibilities in PD seem to be quite well defined."

The Report goes on to note that issues of operational responsibility could be helped by further geographic desk involvement in elaboration of non-mission programs, such as Turkey, Portugal, Ireland and Poland.

During the past year, the Asia and Near East Bureau has reorganized two of its geographic desks and shifted responsibilities to a more equitable balance between the two desks. PD geographic divisions were also reorganized along the same lines. This has resulted in a more balanced workload and clearly delineated roles for all concerned. We have also developed strategy statements for several of our Washington-managed programs which assign responsibility to specific ANE offices, generally within a multi-office "working group" approach, such as those that follow the West Bank/Gaza, Human Rights, or Regional Cooperation programs. I will continue to review our policies and procedures to insure clarity of operational responsibilities among the geographic and staff offices in the Bureau.

### MANAGEMENT STUDIES: MALARIA VACCINE DEVELOPMENT

SENATOR INOUYE: The management assessment prepared by the Office of Health, Bureau for Science and Technology, recommended that A.I.D. not be involved in basic research. The issue was raised in the context of the malaria vaccine research program which the Agency funded under the Child Survival program.

Have there been problems in the malaria vaccine research program which warrant this recommendation?

AMB. WOODS: The management assessment of the Office of Health, Bureau for Science and Technology, was prepared by a team of development and health experts. The team's report concluded that the Office of Health research portfolio corresponds closely to the Agency's health objectives, and that with the exception of malaria research, it is tightly focused on high priority field problems and consists mainly of applied research which promises usable results in relatively short time periods.

As for the malaria vaccine research program, which is funded with health funds and not child survival funds, the management assessment team's report was inconclusive. The team did not identify any major problems. Rather, the team was concerned about the costs of the malaria vaccine program -- $89 million over the past 20 years -- plus the likely future costs, and the lack of direct-hire scientific personnel to manage this area of basic research. Nevertheless, the team did recognize the global significance of a vaccine against malaria and the considerable investment and progress that has already been made. It recommended that the program should continue, but undergo periodic and intensive progress reviews.

I am pleased to report that the program has undergone and will continue to undergo such periodic reviews. This year the Agency established an external Scientific Advisory Research Committee to advise on scientific and policy decisions regarding the malaria vaccine. We also took the lead in reviving an inter-agency coordinating committee on malaria vaccine development, and we have significantly expanded our roster of consultants who will be involved in proposal reviews and in site visits to on going research laboratories. We also have instituted more formal evaluation procedures to ensure that research is tightly focused and to minimize any potential overlap between researchers.

## BASIC RESEARCH ON ACQUIRED IMMUNE DEFICIENCY SYNDROME

SENATOR INOUYE: Does the Agency support basic research in its program for Acquired Immune Deficiency Syndrome?

AMB. WOODS: The Agency does not support basic research as part of its Acquired Immune Deficiency Syndrome (AIDS) program. A.I.D. is, however, conducting applied operations research to: (1) field test prevention technologies such as rapid blood transfusion screening tests appropriate for developing countries, (2) determine the most effective public health messages in particular country settings, and (3) explore the interaction between AIDS and family planning delivery in different regions of the world.

## COSTA RICA FRAUD ALLEGATIONS

SENATOR INOUYE: In May 1987, the A.I.D. Inspector General reported to Mr. McPherson, then A.I.D. Administrator, of a number of problems discovered in an audit report of the USAID Costa Rican Program, Development and Support accounts and local currency accounts.

Can A.I.D. decentralize authority for program management and at the same time maintain a close scrutiny of expenditures?

AMB. WOODS: Yes, we can do this through close involvement by the A.I.D. mission controller in program management from the design stage through the actual expenditure of funds. A strong mission Controller operation will provide close scrutiny of expenditures. In addition, our current system of internal control assessments, mission controller assessments, and Inspector General audits will provide further assurance that expenditures receive the appropriate oversight. Since the recent problems to which you refer, to we have sped up the timetable for mission controller assessments and, at the same time, have begun an aggressive recruitment drive for Controller personnel to more fully and adequately staff our overseas missions.

SENATOR INOUYE: What efforts have been made to tighten audit and management procedures in A.I.D. missions generally, and in the Costa Rican mission specifically?

AMB. WOODS: I have insisted that the highest standards of accountability be applied to all of our programs. We frequently review audit and management procedures for all of our overseas missions. In the case of Costa Rica, many corrective actions have been taken by the Agency, the Bureau and the Mission -- some before the Inspector General's review, others as a result of that review -- many of which were listed in the enclosure to my letter of February 26, 1988 to you and Senator Kasten. Some of these grew out of Washington oversight during the latter part of the period covered by the report. Knowing that there have been management weaknesses for some time, we have strengthened our monitoring over the past two years, and the report enclosed with my letter attempts to describe the oversight roles which now exist in various bureaus and offices in the Agency.

I think it is clear that transaction-by-transaction oversight by Washington concerning diversified programs (such as the participant training program example) scattered among missions located in different foreign countries is neither possible nor desirable. Under a decentralized system, the mission director is expected to have the experience and judgment to handle individual actions within policy guidance. In the vast majority of cases, this is done. Occasionally, there are individual failures. The Office of the Inspector General is, by design, far better equipped to ferret out these individual instances of specific transaction failures than the geographic bureaus who do not have this investigative staff or expertise. Where there is a pattern of program-related management deficiencies, however, the respective geographic bureau should uncover such problems. Generally, this has occurred, but not always.

Finally, I would note that although A.I.D. has some of the most innovative and courageous operational senior career people I have seen anywhere in the government -- and there are many examples of this excellence -- A.I.D. is not an agency which has given adequate priority to administrative management over the years. Both the mission operations and the Washington oversight of those operations have been handicapped by that circumstance. We are moving to correct this serious problem.

## HEALTH AND AGING: PRIORITY RESEARCH TOPICS

SENATOR INOUYE: The FY 1988 report of the Senate Appropriations Committee recommended that A.I.D. begin to channel health resources into research activities in aging.

What do you see as the most promising area of research?

AMB. WOODS: As we noted in our recent report to your committee, we have recently adopted a medium-term strategy that focuses on two critical research arenas for the next two to three years.

The first is improvement in the demographic and health statistics data base on aging. We believe that it is essential that A.I.D., other donors, and less developed countries all have access to high quality data on country, regional, and global aging trends.

The second priority for aging research is to ascertain the impact that an aging population will have on health systems. If developing countries are to anticipate the health care requirements of a growing elderly population, a variety of behavioral, demographic, economic, and management issues must be addressed. For example, early attention must be given to health-care financing and, more importantly, to assessments of the cost-effectiveness of different preventive approaches to assuring the health status of the elderly.

## HEALTH AND AGING: COPING WITH GERIATRIC HEALTH CONCERNS

SENATOR INOUYE: What assistance is A.I.D. providing to help the aging population in the less developed countries to cope with geriatric health concerns?

AMB. WOODS: A number of A.I.D.-funded bilateral and private voluntary organization projects are already directing health services to the aged population as one element of their programs. As our information about the health needs and concerns of the elderly improves, we will be able to refine and redirect these service delivery programs.

The Agency's current priority in aging is to improve the statistical data base on aging and health to enable countries to plan for rapid increases in their elderly population. The centerpiece of our research will be a coordinated research program in four A.I.D.-assisted countries to obtain detailed information about a wide range of issues, including the following: (1) the specific health problems and needs of the elderly; (2) the availability and cost-effectiveness of special programs addressing the health needs of the elderly; (3) the role of the government, family, church and other private organizations in caring for the elderly; and (4) an estimate of the current and projected costs of providing health care to the elderly.

## HEALTH AND AGING: NAS REPORT

SENATOR INOUYE: Last fall, A.I.D. asked the National Academy of Sciences to convene an expert panel to advise A.I.D. on high priority topics for research on aging in the developing world.

Please summarize for this Subcommittee the recommendations made by the Academy in its follow-up report and tell us whether they have been accepted by A.I.D.

AMB. WOODS: The NAS panel suggested the need for two general types of research on aging in less developed countries: (1) macro-research to investigate the current and future consequences of a growing population of aging populations, and (2) micro-research to investigate the aging experience at the individual level.

The panel noted that the results of the macro-research could be used to raise the awareness of aging issues among policymakers in developing countries and to inform their decisions on the allocation of resources to programs addressing aging issues. The results of the micro-research are essential to understanding the mechanisms by which individual well-being can be improved and to designing appropriate interventions. The Agency has incorporated these recommendations into its medium-term research strategy on aging.

## HEALTH AND AGING: FUNDING PROGRAMS FOR THE AGED

SENATOR INOUYE: How does A.I.D. propose funding new programs for the aged?

AMB. WOODS: As we recently reported in our response to the request contained in Senate Report 100-236, the Agency has adopted a medium-term research strategy that focuses on the impact of aging on the health sector. We estimate that this research strategy will require approximately $2 million in health funds over a two to three-year period.

Meanwhile we intend to continue funding ongoing projects. For example, a number of A.I.D.-funded bilateral and PVO projects are already directing health services to aged populations as one element of their program.

NON-COMPETITIVE A.I.D. CONTRACTS

SENATOR INOUYE: A.I.D. has provided this Subcommittee with a list of new non-competitive contracts entered into by the Agency between October 1, 1986, and September 30, 1987. Eleven of these contracts, valued at nearly $4.5 million, were awarded on the grounds that the recipient was the only one responsible source of supply. Seven contracts, worth nearly $6.5 million, were awarded on the grounds that the expenditure was of unusual and compelling urgency.

Please explain why Electrolux International, a Swedish company, was awarded a $109,000 non-competitive contract for refrigeration equipment to USAID/Kinshasa on the grounds that it was the only one responsible source of supply?

AMB. WOODS: Using funds from the regionally funded project, Combatting Childhood Communicable Diseases, kerosene-fueled absorption refrigerators from Electrolux International were purchased for use in service areas without electricity. Electrolux International was the only responsible source because Electrolux was the only manufacturer whose product passed World Health Organization and United Nations Children's Education Fund testing for vaccine refrigeration equipment. U.S. manufacturers did not make kerosene-fueled absorption refrigerators. A source waiver signed by the Acting Assistant Administrator for Africa on September 10, 1982 allowed USAID/Kinsahsa to make the purchase from Electrolux International. The final cost was $99,020.

SENATOR INOUYE: Please explain why Xerox Special Information Systems was awarded a $111,000 non-competitive contract for the provision of copying machine sorters on the grounds that it was the only one responsible source of supply.

AMB. WOODS: Xerox Special Information System (XSIS) had the contract for the original installation of equipment. The machine sorters are part of our Remote Automated Reproduction and Collating Systems (REARCS). The sorters attach to high speed laser printers in order that the large volume of international telegram traffic received daily in A.I.D. headquarters can be quickly distributed for appropriate action. The system we employ was developed under a contract let by the State Department to automate the dissemination of the thousands of messages processed daily. The Special Information Systems Division of the Xerox Corporation was the organization which developed the specialized hardware, unique software and specially adapted printers for this system. The requirement to add new bins had to be completed by a contractor who had access to the software documentation in the original equipment. XSIS is the sole proprietor of the software documentation. A market search was conducted in the Commerce Business Daily and no responses were received. Additionally, other agencies were contacted and advice was received that they were also unable to obtain any competitive sources.

SENATOR INOUYE: Please explain why the Peruvian organization, Commission Fulbright de Intercambio, was awarded a $980,000 non-competitive contract to assist USAID/Peru to implement the Andean Peace Scholarship Program on the grounds of unusual and compelling urgency?

AMB. WOODS: The Andean Peace Scholarships Program is an ongoing major initiative which is part of a larger effort to: (1)

strengthen the manpower resources of the region through training in skills essential for social, economic and political development; and (2) strengthen the mutual ties of friendship and understanding between the countries of the Latin America and Caribbean region and the United States. Effective program implementation requires that an in-country (Peruvian) capability be in place to work with the A.I.D./Washington region-wide contractor to assure that appropriate participants are selected on a timely basis.

In September 1987, A.I.D./Washington was prepared to award and negotiate a major contract with a U.S. institution to coordinate and manage this training program in the United States. Peru, being one of the largest countries in the region participating in the program, was critical to the the entire program initiative. For Peruvians to have the opportunity to participate in the U.S. training, the A.I.D. Mission needed to enter into a contract with a local institution to provide the screening, orientation, and follow-up services simultaneously with the execution of the A.I.D./Washington contract with the U.S. umbrella contractor. Otherwise, the program would begin without Peruvian participation, and the first groups of trainees would not include Peruvians. It was clear that failure of Peru to participate on a timely basis in the program would result in serious adverse effects on U.S. foreign assistance policy.

The A.I.D. Mission determined that, of all eligible local institutions considered by the Mission, only the Fulbright Commission had the direct and strong ties to the United States Information Service (USIS) and the U.S. Government that would facilitate implementation in a manner consistent with the diplomatic and cultural objectives of the program. Because of time constraints resulting from previous unsuccessful negotiations with the Peruvian-North American Cultural Institute, it was decided that awarding a competitively bid local contract would have resulted in eliminating Peruvian participation in the first group of trainees sponsored under the program. Therefore, given the unusual importance of the program, A.I.D. decided to waive local competition, after careful consideration of six alternative institutions, and award the contract to the Fulbright Commission on the grounds of unusual and compelling urgency. The Mission signed a contract with the Fulbright Commission, but later encountered implementation problems related to the Commission's inability to respond on a timely basis to training processing requirements. As a result, the Mission canceled the contract and continued the program using alternative implementation arrangements.

SENATOR INOUYE: What is the total dollar amount of A.I.D. sole source and non-competitive contracts awarded to foreign suppliers in each of the last five years?

AMB. WOODS: The amounts of our non-competitive awards to foreign suppliers over the last five years are as follows:

| | |
|---|---|
| FY 1987 | $ 5,867,898 |
| FY 1986 | $ 5,571,757 |
| FY 1985 | $13,369,213 |
| FY 1984 | $ 5,813,767 |
| FY 1983 | $ 4,488,509 |

The FY 1985 figure is exceptionally high because of the A.I.D. efforts in the African famine relief program that year. There were four large contracts with local firms which account for $8,500,000 of the year's total.

SENATOR INOUYE: Why has it taken until April of 1988 for A.I.D. to provide the Subcommittee with information on non-competitive contracts awarded prior to September of 1987?

AMB. WOODS: The Foreign Assistance Act requires A.I.D. to submit the listing of new contracts having a total estimated cost in excess of $100,000 which were entered into without competitive selection procedures as part of its annual submission on Development Issues. This overall report is due on February 1 and is a major one which requires us to obtain inputs from numerous government agencies and to coordinate the result with all contributors. It is a lengthy process and A.I.D. has decided in each of the last five years to submit the non-competitive contracts report separately in order that the information not be unduly delayed in its submission to the Congress. In each of those years the report has been submitted on about May 1. This year's submission was in keeping with this practice.

## POPULATION PLANNING

SENATOR INOUYE: Mr. Woods, I understand that this year A.I.D. is requesting $20 million in FY 1989 to fund the United Nations Fund for Population Activities (UNFPA). This is the same amount that A.I.D. requested last year.

Why is A.I.D. seeking UNFPA funding when the Administration has consistently made known its opposition to this organization and its population planning activities?

AMB. WOODS: Under current legislation, A.I.D. is prohibited from funding any organizations which support or participate in the management of a program of coercive abortion or involuntary sterilization. We have determined that UNFPA does participate in the management of the Chinese population program and is therefore ineligible for funding. However, the Administration has consistently stated that future funding of UNFPA would be possible if there was a significant change in the UNFPA program in China or in the Chinese population program. Because of this statement of intent, A.I.D. has included funds for UNFPA in its budget submissions. If there were no funds in the budget, which is submitted a year in advance, we would not be in a position to resume support if the type of changes we require were made by UNFPA or the Chinese.

SENATOR INOUYE: Has the Administration finally accepted the validity of a broad approach to family planning and the central role played by UNFPA in this effort worldwide?

AMB. WOODS: Since its inception in 1965, A.I.D. has been the largest source of support for international population activities. It has also been the principal source for innovation on a wide range of areas including community approaches to family planning service delivery, contraceptive technology and marketing, policy analysis, and support for Census and other data collection. A.I.D. and UNFPA share many common objectives and, indeed, coordinate our efforts.

SENATOR INOUYE: Have you studied the UNFPA program in the course of your review of the FY 1989 budget request submitted by the President? Do you favor funding of UNFPA? If not, why not?

AMB. WOODS: A.I.D. reviews the programs of UNFPA annually and is represented at the United Nations Development Program Executive

Board meetings where these programs are discussed.

Currently, the decision on U.S. funding for UNFPA hinges on UNFPA's program in China. The UNFPA program in China and the Chinese program are reviewed annually to ascertain whether funding is possible. The review of the Chinese program in 1987 indicated that the Chinese program remains coercive. We have contracted with the U.S. Bureau of the Census to update our information on the Chinese population program. We will base our decision on the disposition of the FY 1988 funds for UNFPA on that review. Future funding for UNFPA will depend on significant changes in the UNFPA program in China or the Chinese population program itself.

## POPULATION PLANNING: PRENATAL HEALTH AWARENESS

SENATOR INOUYE: A.I.D.'s FY 1989 Congressional Presentation document states that "support for family planning services is the highest priority in the centrally funded population portfolio." It also emphasizes the goal of "initiating and expanding family planning service delivery and improving its quality and management."

What level of support does A.I.D. give to programs which target prenatal health awareness?

AMB. WOODS: In FY 1987 a new emphasis was placed on maternal health and its integration into child survival activities. A three-year $250,000 grant to the World Health Organization's Safe Motherhood Operations Research Program was also initiated.

In FY 1988, A.I.D. will be implementing a major new five-year $17,500,000 Maternal and Neonatal Health and Nutrition project. The population assistance program has been and will continue to be concerned with the impact and linkages of family planning on family health and specifically the role that birth spacing plays in saving lives of infants and mothers.

SENATOR INOUYE: How much support will A.I.D provide this year to UNFPA's prenatal health awareness programs?

AMB. WOODS: In the past, our support for UNFPA has been in the form of a general contribution and was not allocated for specific activities. However, the decision on funding for UNFPA in FY 1988 has not yet been made.

## POPULATION -- EGYPT

SENATOR INOUYE: Frank B. Kimball, the former A.I.D. Mission Director in Cairo, was quoted as saying in 1986 that Egypt's family planning drive, in which the United States had invested more than $67 million up to that point, "is not producing any demonstrable results at the moment."

Has there been any progress in reducing the birth rate in Egypt since 1986?

AMB. WOODS: I cannot answer your question with precision at this time, Senator, since the most recent official statistics on birth rates are based on data collected in 1986. According to this information, the 1986 rate was 38 per thousand population. We expect that the estimates for 1987 will be released sometime later this year, and the ones for 1988 will be available sometime in 1989. It is important to point out that the rate of contraception among women of childbearing age has increased to 42 percent as compared with 32 percent in 1984. Thus, I believe that gradual gains are being made, although the increases in contraception and reduced fertility are now less apparent because of the dramatic decreases in mortality -- due in no small part to our successful health development assistance.

SENATOR INOUYE: What is the total amount A.I.D. has provided to date for family planning assistance in Egypt?

AMB. WOODS: Since 1977, we have authorized a total of $170 million. By the end of FY 1988, we will have obligated $137 million. Approximately $76 million has been expended already.

SENATOR INOUYE: What is the current state of the A.I.D. family planning program in Egypt?

AMB. WOODS: Important new family planning initiatives are now being implemented through the oversight of a new National Population Council chaired by President Mubarak. The Ministry of Health is upgrading family planning services in 3,000 hospitals and health centers; the private sector Egyptian Family Planning Association will establish and upgrade 240 clinics; the already successful private organization, Family of the Future, will greatly expand contraceptive distribution through most private pharmacies and most private physicians in Egypt. The new activities evidence a renewed commitment of the Government of Egypt to family planning, and represent a creative nationwide involvement of the Egyptian private sector and the Ministry of Health and the Ministry of Social Affairs. I want to emphasize, Senator Inouye, that although there is no quick fix to the problem of the high population growth rate, all of the current initiatives will lay the groundwork necessary for future gains and to meet the tremendous unmet need for family planning services. Along with the expanding role of the Ministry of Health, I am particularly enthusiastic about the growing potential of the private sector, whose share of contraceptive distribution has increased from 44 percent of total distribution in 1980 to 72 percent in 1987.

## POPULATION PLANNING: AFRICA

SENATOR INOUYE: Improved health conditions with no change in population planning will result in sub-Saharan Africa's population growing at 3.1 percent per year between now and the end of the century, twice the rate for the rest of the world.

What success have A.I.D. population programs had in reducing the rate of population increase in sub-Saharan Africa?

AMB. WOODS: Sub-Saharan African attitudes have changed very quickly over the past five years, with a majority of the population now living in countries which have adopted national policies or programs favoring reduced population growth. This policy process frequently took one or two decades in Latin America and Asia. So, I think we may see rapid growth in family planning in Africa in the next few years.

While verifiable decreases in population growth have yet to be documented on any large scale, rates of use of modern contraception have shown remarkable increases in parts of Kenya, Zimbabwe, Botswana, Zaire and Nigeria. However, this progress has occurred only where special efforts have been made to assure that quality family planning information and services have been made accessible.

A.I.D. is rapidly expanding its assistance to family planning programs in Africa. The Bureau for Africa is funding five new bilateral projects in FY 1988, and more are planned in this region during FY 1989. This is one of the most rapid expansions of population programs in A.I.D.'s history. I am certain our assistance will play a critical role in mobilizing African public awareness and use of modern family planning to bring about urgently needed reduction in population growth and improvements in public health.

I wish to note that the introduction to this question stating that Africa's population is growing at "twice the rate for the rest of the world" is inaccurate. World population growth, less sub-Saharan Africa, is 2.1 percent. Thus, Africa's population growth is about 50 percent higher than the rest of the world.

## SCIENCE AND TECHNOLOGY: OFFICE OF THE A.I.D. SCIENCE ADVISOR

SENATOR INOUYE: Over the years the United States has earned a reputation around the world for bringing science and the promise of new and innovative technologies to the development field. One of the ways in which A.I.D. has tried to encourage this effort is through the establishment of the Office of the Science Advisor. Yet, the funding request for the Science Advisor in the next fiscal year is $1 million less than in FY 1987.

How do you account for this reduction? Has your need for an independent Science Advisor diminished?

AMB. WOODS: The Office of the Science Advisor has in fact carried out a creative and successful program over the last several years, and we want to continue this initiative. I see a continuing need for an independent A.I.D. office to pursue the development of particularly innovative technologies for less developed countries.

The obligations of the Office for FY 1987 were $14.258 million, compared with a request of $8.662 for FY 1989. This reduction reflects our response to a specific interest of the Congress, and to a specific change in the FY 1988 appropriations. The first, and most significant, was the decision to change responsibility for the U.S.-Israel Cooperative Development Research Program and reduce its research component, resulting in the reduction of $5 million in the Office budget in FY 1989 when compared with FY 1987.

The second change was in the FY 1988 appropriations where the Congress specifically limited funding for the National Academy of Sciences further reducing the budget of the Office. We assume this policy vis-a-vis the NAS will carry into FY 1989 and beyond. Thus, the Office of the Science Advisor has $6.662 million for the "core" research program for FY 1989 and $2 million for networking and support activities through the NAS.

SENATOR INOUYE: What is the relationship between the Office of the Science Advisor and the Senior Assistant Administrator for Science and Technology?

AMB. WOODS: The A.I.D. Science Advisor heads an independent Office that maintains its program budget apart from the Bureau of Science and Technology and from other A.I.D. units. The Science Advisor reports to me through the Senior Assistant Administrator for Science and Technology. The Senior Assistant Administrator authorizes the Science Advisor's grants and approves major funding changes within the office. However, funds programmed for the Office of the Science Advisor are not transferable to other A.I.D. offices during the course of the year. Additional information about this relationship was presented to your Committee on April 15. It is in the report on the Office of the Science Advisor, one of the nine offices we studied.

FUND FOR AFRICA

SENATOR INOUYE: The budget approved by Congress and the President for fiscal year 1988 contained $500 million for a new Africa fund. It was the intent of the Committee, as expressed in its report, that the fund provide significant resources for A.I.D. development initiatives on a macroeconomic, sectoral and project level.

What steps has A.I.D. taken to implement sectoral reform in sub-Saharan Africa?

AMB. WOODS: Prior to the Development Fund for Africa, A.I.D., through the African Economic Policy Reform Program (AEPRP) and in a few Development Assistance-funded activities, supported sector-type programs which in most cases involved individual productive sectors. The AEPRP's, for example, supported reforms of agriculture marketing policies (Zambia, Togo); agricultural input systems (Guinea, Malawi, Gambia, Cameroon); rural road rehabilitation (Tanzania); manufacturing incentives (Rwanda); trade and tariffs (Senegal, Mauritius, Zaire) and fiscal policy (Mali).

A.I.D. is now using nonproject assistance in the Development Fund for Africa to increase our support for efforts which reduce policy, institutional and resource constraints that inhibit (1) the growth of income and employment in the productive sectors (agriculture, manufacturing, transport, trade, etc.) and (2) access to services in the social sectors (health, education, family planning).

For example, we are supporting employment generation programs in support of Ghana's structural adjustment program, export manufacturing in Malawi, market town development in Kenya, a sectoral approach to family planning in Botswana and protection of grazing lands through a policy reform program in Lesotho.

SENATOR INOUYE: What success has A.I.D. had in implementing incentive programs in the agricultural sector?

AMB. WOODS: Total cereals production in Africa is starting to rise. Total per capita production in 1986 was the highest level since 1961. Production per capita in 1987 has fallen somewhat but that is largely due to big decreases in Sudan and Ethiopia and to some extent by poorer weather conditions in the Sahel. Much of the positive turnaround in agriculture production undoubtedly is related to improved incentives for farmers.

Isolating A.I.D.'s policy impact from that of other donors and separating policy results from the short-term effects of other production-increasing factors such as rainfall, improved inputs such as seeds, and improved management practices complicate the measurement process. Despite these measurement difficulties, some trends are fairly clear. Farmers respond to changes in incentives. There is clear evidence that farmers responded to freer markets and price signals and made choices that maximized their welfare. Reforms have led to significant increases in food production. In the presence of adequate rainfall, donor-assisted policy reform programs were the dominant causes of increased output in, among others, Madagascar, Somalia, Zambia, Zaire and Zimbabwe.

The Title II Section 206 Cereals Marketing Restructuring project in Mali represents a successful A.I.D. incentive program in the agriculture sector. With food assistance, A.I.D. joined with several other donors in supporting the government's agriculture policy reform efforts. The activity is considered to be one of the best examples of multi-donor cooperation in Africa. The coordinated effort has been instrumental in improving producer price incentives, cushioning the short-term impact of rising farmgate prices on consumers, liberalizing coarse grain and rice marketing, expanding the private sector's role in food marketing and underwriting organizational reform. In Mozambique, agricultural price liberalization combined with the increased availability of inputs has resulted in substantial increases in land cultivation. A recent A.I.D. evaluation of the commodity import program estimated for those receiving inputs, land utilization had increased by 38 percent.

Reform programs in Somalia and Zambia were initially successful but could not be sustained by their governments. In Somalia, the dramatic increase in grain production since liberalization of cereals marketing helped the country become self-sufficient in corn and sorghum. In Zambia, the auction had given the private sector greater access to foreign exchange needed to purchase requisite production inputs. Agricultural production also had increased, rising 9 percent in the 1986/87 crop year. Both the Somali and Zambia governments viewed the political costs associated with the adjustment program to be greater than the realized economic gains. In both cases, there was little that A.I.D. could do.

SENATOR INOUYE: How has A.I.D. fared in coordinating its reform programs with those of the other bilateral and multilateral donors in sub-Saharan Africa?

AMB. WOODS: A.I.D. has fared well in coordinating our reform programs with other bilateral and multilateral donors in sub-Saharan Africa. The Japanese have agreed to provide parallel financing for our AEPRP program in Tanzania and the EEC has agreed to a similar arrangement with the Cameroon AEPRP. The active ongoing bilateral donor coordination efforts in Mali and Senegal are also examples of our success to date.

The Tanzania AEPRP is a coordinated financing program with the World Bank. We are concentrating on privatizing rural road rehabilitation while the IBRD is focusing on trunk roads. In our desire to continue coordinated financing, in FY 1988 we are planning to support sectoral reforms by parallel financing activities with the World Bank using Development Fund for Africa resources in Madagascar, Uganda, Ghana, Malawi, and Niger. A.I.D. is working much more closely than before through the Consultative Group and the Policy Framework Paper process with the World Bank and the IMF on the design and funding of such programs. A.I.D. has, at times, had opposing views on issues with the IMF and the World Bank in the past and this will probably continue. Given that there is not always one perfect solution to many of the problems facing many of the developing countries in sub-Saharan Africa, the debate is helpful and should be encouraged.

## FUND FOR AFRICA

SENATOR INOUYE: What mechanisms does A.I.D. have in place to discourage import substitution among countries receiving sectoral assistance?

AMB. WOODS: At the outset I should say that import substitution in and of itself is not bad. Distorting prices so as to foster import substitution that cannot meet a market test is to be avoided. A.I.D. is actively supporting rationalization of trade, tariff and exchange regimes in Africa. Since 1985 we have supported three major tariff rationalization programs (Mauritius, Senegal and Zaire), one program which reduced quantitative restrictions (Senegal) and several major studies of trade policy (Rwanda and Kenya). In addition, we have supported more liberal foreign exchange allocation procedures in Guinea, Somalia and Zambia. Our policy in this area is to help countries exploit their comparative advantage by exporting what they can produce relatively cheaply so as to import what would be expensive to produce.

SENATOR INOUYE: What emphasis does A.I.D. place on export-led growth in tailoring its sectoral reform programs?

AMB. WOODS: Africa's structural adjustment programs led mainly by the World Bank put emphasis on liberalizing international trade and payments and thus should result in export-led strategies. A.I.D. believes this is especially sensible for small African countries with limited domestic markets. A.I.D. and World Bank programs over the last several years have been designed to aid sub-Saharan African countries in restructuring their policies to conform to an outward-oriented strategy. For example, A.I.D. has supported exchange rate reforms in Zambia, Somalia, Guinea, Gambia, and Rwanda and other reform programs in Senegal, Zaire, Togo, Niger and Mauritius. A.I.D. believes that these reforms, especially if supplemented by further reforms, will lead to a significant increase in the African countries' export capability. Mauritius and Swaziland are two countries where such a strategy is yielding very large benefits. Mauritius' unemployment rate has dropped from 22 percent in 1982 to less than 12 percent in 1986 because of a rapid increase of 20,000 export-oriented jobs.

Our recent efforts have concentrated on non-traditional exports for regional markets such as maize for the Sahel from Togo and cowpeas, onions and livestock from Niger to Nigeria.

SENATOR INOUYE: How will A.I.D. ensure that the primary benefits flowing from the newly enacted Africa fund will flow to those citizens most in need, small farmers and business, and not the ruling elites?

AMB. WOODS: We are concentrating our resources in those countries engaged in economic liberalization. Our funds are often used to support this process. Liberalizing African economies means reducing taxes on peasants and reducing subsidies for elites. As a result access to and ownership of resources will begin shifting to the poorer segments of the population: rural smallholders and workers in the informal sector. We are helping African governments resturcture their economies-making them more equitable as well as more efficient.

## EGYPT -- CONTRACT AWARD ALLEGATIONS

SENATOR INOUYE: Mr. Woods, I understand that A.I.D. has awarded a contract in Egypt to a British firm and that this award is being protested by a U.S. company. Is this true?

AMB. WOODS: I believe your question refers to L*A Water Treatment Corporation, a Delaware corporation with its principal place of business in City of Industry, California. I understand it has been in business in the United States for more than 40 years. It came under British ownership in 1983.

L*A Water Treatment Corporation recently won a Government of Egypt bid competition for water treatment and sewage facilities under the A.I.D.-financed Provincial Cities Development Project. Its $58,921,804 bid was more than $24 million below the next bidder's price.

The award by the Government of Egypt is subject to approval for A.I.D. financing by our Mission in Cairo.

The next bidder protested, arguing that L*A Water Treatment Corporation does not meet the eligibility requirements established by A.I.D. Expressions of interest were received from members of Congress on behalf of the protesting bidder and on behalf of L*A Water Treatment Corporation.

The Government of Egypt award was approved by the A.I.D. Mission Director in Cairo on May 26, 1988. Detailed technical and financial analysis by the Government of Egypt implementing agency, the A.I.D. Mission in Cairo and A.I.D. Washington, confirmed by an outside engineering consultant, supported approval of this award.

## A.I.D.'S NATIONALITY POLICIES

SENATOR INOUYE: Mr. Woods, could you summarize A.I.D.'s nationality rule?

AMB. WOODS: A.I.D. normally specifies the authorized source for procurement as either the United States only (for Economic Support Fund loans, all grants except those to relatively least developed countries, and centrally funded procurements) or the United States and developing free world countries (for development assistance loans and for grants to the relatively least developed countries). The entire free world may be the authorized source for procurements in certain circumstances such as when necessary goods and services are not otherwise available. A.I.D. has developed nationality rules to determine whether contractors or subcontractors under A.I.D.-financed contracts for services meet the source requirement.

Under these rules, eligibility of individuals is based on citizenship and principal place of business being in a country or area included in the authorized source for the procurement.

For privately owned commercial corporations or partnerships, eligibility depends on whether the organization is incorporated or legally organized under the laws of, and has its principal place of business in, a country or area included in the authorized source, and it is either 50 percent or more beneficially owned by individuals who are citizens of a country or area included in the authorized source, or it meets several other requirements concerning time established in the United States, employment of U.S. citizens, previous work in the U.S. and capability in the U.S. to perform work.

Eligibility of a nonprofit organization is determined by place of organization, location of principal facilities, and control and management of the governing body.

For the purpose of these rules, non-U.S. citizens who are permanent legal residents of the United States are treated as U.S. citizens.

SENATOR INOUYE: Mr. Woods, did L*A Water qualify under A.I.D.'s nationality requirements at the time its contract proposal was submitted?

AMB. WOODS: L*A Water met A.I.D. nationality standards at the time of prequalification, although its prequalification submittal to USAID was deficient. The A.I.D. Washington review confirmed that L*A Water met A.I.D. nationality requirements. We have also satisfied ourselves that L*A Water has the technical and financial capability to carry out this particular contract.

SENATOR INOUYE: How did A.I.D. decide to award the contract to L*A Water?

AMB. WOODS: The decision to award was made by the Government of Egypt, as a host country contract, on the basis of its review of competitive bids that were submitted by potential contractors. The proposed award was subject to A.I.D. approval for financing. On the basis of a thorough review, it was determined that L*A Water is qualified under A.I.D.'s eligibility regulations, that it is the lowest qualified responsive bidder and that all equipment and services will originate from the United States and Egypt. Therefore, the A.I.D. Mission in Cairo approved the Government of Egypt's decision to award the contract to L*A Water.

SENATOR INOUYE: Did any A.I.D. official object to the award of the contract to L*A Water on the grounds of nationality?

AMB. WOODS: When the second low bidder protested to A.I.D. on grounds of nationality, A.I.D. officials recognized that the issue raised was a serious one and deserved a careful review. The matter was reviewed again in Cairo and in Washington, with the assistance of an outside engineering consultant, and A.I.D. concluded that L*A Water met applicable A.I.D. eligibility requirements.

SENATOR INOUYE: I understand that before the bids for the Egypt project were submitted for final selection they were subjected to a prequalification review.

Describe how the prequalification review process was conducted?

AMB. WOODS: The prequalification process was conducted by the National Organization for Potable Water and Sanitary Drainage (NOPWASD), the Egyptian Government agency responsible for the project, before the invitation for bids was issued. NOPWASD reviewed information submitted by interested firms, using an evaluation form approved by the Cairo A.I.D. mission, and drew up a list of eight prequalified firms based on this review. NOPWASD submitted the list to the Cairo mission for approval, which was given on December 2, 1985, and on November 2, 1986, NOPWASD issued invitations for bids to the firms on that list.

SENATOR INOUYE: Did the nationality question arise during the prequalification review process with regard to L*A Water?

AMB. WOODS: The nationality question should have arisen during the prequalification review process with regard to all the firms which submitted material. In retrospect, more attention should have been given to the L*A Water's "nationality" credentials at the time of prequalification and the issues raised by its submittal clarified at that time. However, subsequent assessment of L*A Water's "nationality" credentials indicates that clarification during the prequalification stage would not have affected the final determination to award the contract to L*A Water.

SENATOR INOUYE: On what grounds did the reviewers feel that L*A Water was in compliance with A.I.D.'s nationality rule?

AMB. WOODS: A.I.D. regulations permit us to contract with a firm which is foreign owned so long as the company: (1) "has been incorporated...in the United States for more than three years prior to the issuance of the IFB," (2) "employs United States citizens in more than half its permanent full time positions in the United States...," (3) "has performed within the United States similar administrative and technical, professional or construction services under a contract or contracts for services and derived revenue therefrom in each of the three years prior to the issuance date of the Invitation for Bids" and, (4) has the "existing capability in the U.S. to perform the contract." U.S.A.I.D./Cairo and A.I.D./Washington carefully reviewed whether L*A Water met the criteria set down by A.I.D.'s nationality rule. It also contracted an outside engineering firm to assess the capability of L*A Water to implement the project and the capacity in the United States to perform the contract. Based upon this review, it was concluded that L*A Water Treatment Corporation meets these requirements.

SENATOR INOUYE: What role did the A.I.D. Cairo mission play in the prequalification review process?

AMB. WOODS: I understand that the Cairo mission approved the questionnaire and evaluation form which was used by the Egyptian government agency responsible for the project and concurred in the agency's list of prequalified firms on December 2, 1985.

## NATIONALITY RULE

SENATOR INOUYE: Could you provide the Subcommittee with a list of other instances in which A.I.D. contracts have been challenged on the misapplication of the nationality rule and the results of those challenges?

AMB. WOODS: A.I.D. does not keep a record of challenges to its nationality rules. A challenge could be made through any of a number of channels and would be decided on a case-by-case basis.

Although A.I.D. does not keep specific records on such challenges, representatives of our Office of the General Counsel recalled two such challenges during recent years. In both instances, A.I.D. concluded that the nationality rules had been applied properly. In neither instance did the contractor elevate its challenges to the GAO or any other forum.

## A.I.D.'S NATIONALITY POLICIES

SENATOR INOUYE: I understand that recently a U.S. A.I.D.-funded wind energy contract for a project in the country of Egypt was awarded to a U.S. subsidiary of a foreign wind equipment manufacturer.

What exactly is U.S. A.I.D.'s policy regarding the nationality of bidders on U.S. A.I.D.-funded contracts?

AMB. WOODS: A.I.D. normally specifies the authorized source for procurement as either the United States only (for Economic Support Fund loans, all grants except those to relatively least developed countries, and centrally funded procurements) or the United States and developing free world countries (for development assistance loans and for grants to the relatively least developed countries). The entire free world may be the authorized source for procurements in certain circumstances such as when necessary goods and services are not otherwise available. To determine whether contractors or subcontractors under A.I.D.-financed contracts for services meet the authorized source requirements, A.I.D. has developed nationality rules which are explained below.

An individual who is a citizen of, and whose principal place of business is in, a country or area included in the authorized source for the procurement is eligible. Also, a non-U.S. citizen lawfully admitted for permanent residence in the U.S. whose principal place of business is in the U.S. is eligible.

A privately owned commercial corporation or partnership is eligible if it is incorporated or legally organized under the laws of, and has its principal place of business in, a country or area included in the authorized source, and it meets one of the following two tests:

(1) it is more than 50 percent beneficially owned by individuals who are citizens of a country or area included in the authorized source and non-U.S. citizens lawfully admitted for permanent residence in the United States; or

(2) it (a) has been incorporated or legally organized in the United States for more than three years, (b) has performed within the U.S. services similar to those in the A.I.D.-financed contract and derived revenue therefrom in each of the three years prior to the issuance date of the solicitation document, (c) employs U.S. citizens and lawfully admitted permanent residents in more than half of its permanent full-time positions in the U.S., and (d) has the existing capability in the United States to perform the contract.

A nonprofit organization is eligible if it is organized under the laws of a country or area included in the authorized source, is controlled and managed by a governing body the majority of whose members are citizens of countries or areas included in the authorized source, and its principal facilities and offices are in a country or area included in the authorized source.

A joint venture or unincorporated association is eligible only if each of its members is eligible.

## ENERGY

SENATOR INOUYE: Please provide specific information on how U.S. A.I.D.'s policy in this area compares with the policies of the comparable Danish, French, and Canadian foreign aid programs, as well as those of any other countries you may wish to add.

AMB. WOODS: We will review the question of the nationality requirement for contractors with our representatives to the Development Assistance Committee of the Organization for Economic Cooperation and Development in Paris in order to obtain the most current and complete information available.

## WIND ENERGY EQUIPMENT

SENATOR INOUYE: Over the past ten years, how much U.S. wind energy equipment (that is, how many wind turbines of what size) has been used in U.S.A.I.D. technology demonstrations in such program areas as rural electrification or rural water supply?

AMB. WOODS: A.I.D. has had at least fourteen different projects that included the use of U.S. wind technology for electrification and water pumping. Determining the number of machines used in these projects, and their sizes, might be possible, but such an exercise would require significant research.

SENATOR INOUYE: How much non-U.S. wind energy equipment?

AMB. WOODS: A.I.D. policy, to the extent possible, limits procurement to goods with their source or origin in the United States or in the cooperating country. A.I.D. wind projects have followed this policy. Local procurement in the cooperating country has been undertaken in several countries, e.g., Philippines and Morocco. The renewable energy project in Morocco recently financed ten mechanical wind pumpers as part of a program to encourage the Moroccan private sector's manufacturing and sale of wind machines. The project assisted the local entrepreneur in designing his machines, as well as putting in place a monitoring and evaluation program.

SENATOR INOUYE: How much will be used in 1988-1990 and where?

AMB. WOODS: In 1988 and 1989, we are presently aware of A.I.D. plans to fund the purchase of wind machines in two, and possibly three, countries. In Egypt, we will purchase 20 kW of machines to electrify a village and 200 kW for water desalination and grid intertie. In Morocco, we will purchase two U.S.-manufactured 10 kW machines for wind-electric water-pumping, and ten mechanical wind-machines for pumping. The A.I.D. Mission in India is currently considering a proposal for a water-pumping project powered by wind machines.

## BASIC HUMAN NEEDS

SENATOR INOUYE: Under your leadership, has the Agency's new developmental emphasis on growth and privatization replaced its earlier emphasis on the basic human needs of the world's poor?

AMB. WOODS: No. A.I.D.'s continued commitment to improving the lives of the world's poor is evidenced in many ways. From the outset, we have looked on the private enterprise initiative as a way of meeting basic human needs and, therefore, as fully compatible with that mandate. A.I.D. is committed to stimulating and promoting the type of broad-based economic growth without which sustained progress in health, education, nutrition, access to voluntary family planning and increased incomes cannot be supported.

A.I.D. continues to address the basic needs of people through direct interventions in health, child survival, education, nutrition and voluntary family planning. From FY 1987 to FY 1989, combined funding for health, child survival, education, nutrition, family planning and AIDS accounts for over 40 percent of total development assistance funding. However, while improvements in certain basic human needs can be initiated by foreign assistance programs, they can only be sustained when the countries grow economically. The entire agriculture account is focused on food production and increasing rural incomes, which both stimulates real economic growth and improves an important basic human need. In addition, in FY 1989, A.I.D. will spend about $1.4 billion on food aid commodities.

SENATOR INOUYE: Mr. Woods, please explain how the use of A.I.D. assistance to encourage privatization among the middle income classes of Asia, Latin America and Africa will benefit the poorest sectors of these societies in the near or medium term?

AMB. WOODS: A major goal of our privatization efforts is to enable a larger number of citizens in a developing country to have an opportunity to participate in, and enjoy the benefits derived from, the growth of their country's economy than do at present. By spreading the ownership of enterprises more widely among the public, we increase the probability that business ownership will not be confined to a small number of wealthy families or to big industrial-financial conglomerates that seek protection and inhibit entrepreneurial initiative by small enterprises. Through the increased productivity and responsiveness to consumer needs that results from the privatization of enterprises, we contribute to increased employment, higher incomes, and improved standards of living for everyone in the developing country.

For example, in Jamaica, privatization of the National Commercial Bank (NCB) in December 1986 mobilized broad-based popular support through the sale of over 30 million shares of NCB stock. Apart from the nearly 2,000 NCB employees who invested, 15,000 applications were for under 300 shares, and 7,000 applications were for 300 to 1,000 shares. These shares were purchased by workers, civil servants, teachers, and others who, for the first time, found themselves drawn into the larger financial system and economy of their country. Similarly, privatization of the Caribbean Cement Company in Jamaica resulted in 91 million shares being sold to 24,000 buyers, including 99 percent of the company's employees.

Other aspects of A.I.D.'s program involve the the adoption of policies that encourage the expansion of popular participation in economic growth and development and broaden the base for sustained economic growth in developing countries. Critical to promoting broad-based economic growth at all levels in a society is the adoption of policies that let market forces -- and individual initiative -- work to generate growth. A major thrust of A.I.D.'s work in micro-enterprise development is on increasing opportunities for the poor to have their own enterprises and broaden their participation in the economy and in society.

As we expand the number of people who have a stake in the developing country economy, through more broad-based ownership of enterprises and through increased worker ownership of the enterprises for which they work, we will improve our progress in bringing about sounder economic policies and increased standards of living.

## A.I.D.'S PRIVATE SECTOR INITIATIVES

SENATOR INOUYE: A key aspect of the Administration's development strategy has been to promote development through the private sector. In 1984, A.I.D. initiated its Private Sector Revolving Fund, designed to provide loans to small businesses in developing countries.

How well has the Private Sector Revolving Fund operated?

AMB. WOODS: The Bureau for Private Enterprise was established to develop innovative projects which would provide both their own direct benefits and financing mechanisms for private enterprise programming in the missions. We believe the Revolving Fund has been a successful vehicle for accomplishing these objectives.

Building on the Bureau's early successes with loans to the Kenya Commercial Bank and Siam Commercial Bank, many Revolving Fund loans have realized benefits to target groups. For example, a loan to the Far East Bank and Trust Company in the Philippines has extended credit to private small and medium-sized businesses. Our loan to Bank Niaga in Indonesia has enabled small Indonesian private enterprises to provide health and sanitation services. Small farms and manufacturing firms in Thailand have been able, through a loan to Thai Danu Bank, to expand and, in some cases, to start up new businesses. Revolving Fund loans in the Dominican Republic and Ecuador have provided resources to the agri-business sector.

Other projects include a loan to the Serum Institute of India, designed to expand facilities to manufacture bacterial vaccines and establish a new facility to manufacture viral A measles vaccine.

Increased collaboration with missions has also occurred. Missions participate in most Revolving Fund loans. Missions are requesting increased help from Revolving Fund staff in developing their private enterprise and financial market strategies.

Projects developed through the Revolving Fund with local financial institutions have leveraged over $130 million in total capital from $50 million of obligated A.I.D. funds. In addition, through the credit guarantee program, banks in developing countries are making loans to smaller businesses than has been the case previously.

SENATOR INOUYE: Does it have a significant pipeline of undisbursed funds?

AMB. WOODS: Since its inception in 1983, the Revolving Fund program has grown steadily, both in terms of its portfolio size and in the measure of its ability to realize A.I.D. developmental objectives.

The Revolving Fund portfolio was 43 percent disbursed through the end of April 1988 and is expected to be 50 percent disbursed by the end of May. Given the experimental nature of investments made in the Revolving Fund and the financial environments of developing countries, these disbursement rates were to be expected. We are continuing to accelerate disbursements and are exploring ways to shorten the time lags between obligation of loan funds and actual disbursement.

SENATOR INOUYE: A.I.D. recently established a reserve for losses in its Private Sector Revolving Fund. The reserve is equal to 2 percent of outstanding loans.

Has A.I.D. developed a risk policy that defines what losses/risks are acceptable or necessary to achieve A.I.D. developmental goals?

Has A.I.D. established a sound basis for determining whether the Fund's reserve accounts have been set at an appropriate level?

AMB. WOODS: Based on its four-year experience with the Revolving Fund, the Bureau for Private Enterprise is developing an overall risk policy for the Fund. A.I.D. has used this experience to determine an appropriate loss reserve. To date, the Fund has incurred losses which are less than 1 percent of the amounts obligated and less than 2 percent of outstanding disbursed loans.

SENATOR INOUYE: Many of A.I.D.'s private sector revolving fund projects have been administered through local commercial banks in developing countries. I am uncertain, however, that A.I.D. has established appropriate policies for effective participation by the developing country banks in the Fund program.

In particular, has A.I.D. recognized that a major obstacle to small business credit in developing countries is their lack of collateral for bank loans?

Has A.I.D. taken the necessary steps through loan guarantee schemes to encourage banks to adjust their collateral requirements accordingly?

AMB. WOODS: A.I.D. recognizes that a lack of collateral is one of the obstacles to small businesses receiving credit in the developing world. However, in our continuing effort for Revolving Fund projects to have an impact on local financing institutions, we realize that collateral is only one of the elements in the way a bank does business that we are trying to affect. The Fund must first encourage a local bank to consider entering developmentally desirable markets which will prove to be profitable. Secondly, we encourage banks to offer term lending and cash-flow lending, thereby reducing collateral requirements.

## PRIVATIZATION

SENATOR INOUYE: A.I.D. is attempting to foster the development of the private sector in the developing world. Yet many developing world economies are dependent on single commodity exports.

How has the drop in basic commodity prices affected A.I.D.'s push toward privatization in developing countries?

AMB. WOODS: The drop in basic commodity prices has not directly affected A.I.D.'s push toward privatization in developing countries. The drop in commodity prices, however, has forced many countries to reevaluate their economic growth strategies and to move toward more market-based systems to promote development. In some instances, privatization has accompanied their new approach to economic growth.

To alleviate the problems associated with dependence upon a single commodity, many A.I.D. missions are working with developing country private enterprises to develop nontraditional export products. These new exports of fruits, vegetables, and manufactured products offer great potential to diversify developing country economies and to increase foreign exchange earnings and incomes.

SENATOR INOUYE: Must further efforts towards privatization await recovery of commodity prices?

AMB WOODS: Current and future privatization efforts are not dependent on commodity price swings. We expect that the momentum that has been growing with privatization worldwide will continue.

## A.I.D./AMERICAN SCHOOLS AND HOSPITALS ABROAD (ASHA) PROGRAM

SENATOR INOUYE: Mr. Woods, in August, 1987, an American institution called Elwyn submitted a $3,000,000 proposal to A.I.D. to develop a comprehensive network of rehabilitation services in Jerusalem and the West Bank for the mentally retarded. Elwyn has a long-established record of service to the handicapped in the United States and has earned a reputation overseas as well for excellence. The Jerusalem program is intended to prepare individuals for competitive employment and independent functioning in society.

It is my understanding that on January 28 you held a meeting with Elwyn representatives and members of Congress in which A.I.D. funding options were discussed. I am told you suggested that the ASHA program or the West Bank/Gaza program might be suitable sources of assistance. Consequently, I am deeply troubled by the response Elwyn received from ASHA.

At an off-the-record meeting with ASHA officials, Elwyn representatives apparently were told that the program was not suitable for ASHA funding because (1) it was not a school,

(2) Jerusalem Elwyn serves handicapped individuals, and (3) since Elwyn was invited by the Israeli government, it was an Israeli program.

I might add that it is my understanding that Elwyn submitted its proposal to A.I.D. at the suggestion of the U.S. Consul General in Jerusalem who believes that the organization, serving both Arabs and Jews, is making a unique contribution to the co-existence of the two communities in accordance with United States policy.

Is it true, as ASHA officials have said, that the ASHA program does not recognize organizations aiding the handicapped as suitable recipients under their criteria?

AMB. WOODS: Yes. We have concluded that an organization devoted solely to the special needs of the handicapped is unable to meet the broader purposes for which ASHA assistance is designed. ASHA-assisted hospitals and schools are frequently in the forefront of providing rehabilitation and education of the handicapped. They also train educators, nurses, doctors and others in the care, treatment and special needs of the handicapped. Thus, it is not a question of aiding the handicapped, but whether the institution is limited to providing service for this group of individuals.

SENATOR INOUYE: Do you believe the mentally handicapped, and the organizations which serve them, deserve to be treated as all other grant applicants under the ASHA program?

AMB. WOODS: Institutions which concern solely the mentally handicapped meet special needs of limited categories of individuals. Such institutions are distinctively different from the schools and hospitals the ASHA program was established to assist.

SENATOR INOUYE: Should we expand the criteria for ASHA eligibility?

AMB. WOODS: Expanding the criteria to allow application by organizations which do not meet the broader purposes of the program would seem to be contrary to the present mandate set forth in Section 214 of the Foreign Assistance Act.

## AFRICAN LOCUST INFESTATION

SENATOR INOUYE: Once again the countries of the Sahel and North Africa are on the verge of catastrophe as swarms of locusts devour the precious food reserves of these poor countries. The Food and Agriculture Organization estimates that the locust could destroy between 20 and 30 percent of the crops in this region. An article in The New York Times on Sunday noted that the locusts have been observed "traveling in swarms that typically cover about 400 square kilometers." Each square kilometer contains an estimated 50 million insects "capable of eating 100,000 tons of vegetation in a night."

What are A.I.D., other organizations, and the countries involved doing to assist in meeting this new threat to their survival?

AMB. WOODS: To meet the threat of desert locust, A.I.D. provides technical and financial assistance at two levels: 1) in direct support of operational plans developed by national coordinating committees within the affected countries; and 2) through the U.N. agency with the global mandate for locust control, the Food and Agriculture Organization (FAO).

Emphasis is placed upon reinforcing the ability of national governments to respond to this recurring pest. The U.S. Government was a leader in encouraging the establishment of coordinating committees within each affected country, usually one committee for donors and a separate technical committee made up of national and expatriate pest control specialists. Once an operational plan is agreed upon, the local A.I.D. mission identifies portions to be supported by the U.S. Government. Although specific U.S. Government contribution may vary from rental of spray planes to conducting training courses, the one input that was found to be most valuable last year was technical assistance.

Since the desert locusts are migratory, resources often have to be shifted from one country to another. This coordination is especially difficult in the Sahel since the demise of the West African Regional Locust/Bird Control Organization (OC. LA. LAV). Funds, therefore, will be provided to the FAO to operate a temporary technical coordinating unit in the Sahel, with bases in Dakar and Niamey. These units will be staffed with veteran locust control experts and equipped with both aircraft and radio linkage to all affected countries. In addition to supporting these regional efforts A.I.D. and other donors are mounting local control efforts in other African countries, such as the USAID Sudan Medium-Term Locust Control project.

A.I.D. staff are presently receiving and reviewing technical plans to create or strengthen desert locust control units within each national crop protection service and to replace OC. LA. LAV. with a more modest, self-sufficient regional technical coordinating unit. If these plans are found to be technically acceptable, U.S. Government assistance to them will be coordinated with other major donors, in collaboration with FAO.

At a global level, A.I.D. has participated in two meetings in Rome with all international donors to examine the status of the locust infestations, control measures, budget support, policy issues and coordinating. A third meeting will be held in June and A.I.D. will again be an active participant.

SENATOR INOUYE: What is A.I.D.'s position on using the chemical Dieldrin, a long-lasting pesticide which has been banned in the United States, but apparently is the most effective locust pesticide?

AMB. WOODS: A.I.D., in its interpretation of the pesticide procedures of A.I.D. Regulation 16, has always embraced and adopted pesticide regulatory decisions made by the U.S. Environmental Protection Agency (E.P.A.). All of the cyclodiene types of pesticides have been cancelled and/or suspended by E.P.A. for agricultural purposes. The rationale considered concerns about human health (carcinogenicity), persistence, bioaccumulation and adverse effects to wildlife.

A.I.D., through its delegate to the Desert Locust Control Commission, has gone on record against the use of dieldrin, and it has been a matter of A.I.D. policy within the current locust emergency not to participate in any locust control program in which dieldrin is being employed. Rigorous efficacy and environmental impact field trials are being conducted, in part, to demonstrate the effectiveness of alternatives to chemicals such as dieldrin.

We continue to believe that, given the availability of other effective and environmentally safer locust control insecticides, such as malathion and carbaryl, dieldrin should not be used. However, because of its proven and consistently higher level of effectiveness, use of dieldrin may become more attractive to many of the countries affected by the current locust outbreak, including those with publicly stated policies against such use.

## AFRICAN LOCUST INFESTATION

SENATOR INOUYE: How often and in what fashion is the population of the Sahel monitored for negative health effects associated with exposure to anti-locust pesticides?

AMB. WOODS: No plan exists in the Sahel for monitoring the impact of pesticide applications upon the general public. Several national crop protection services have expressed interest in monitoring the health of their pesticide applicators, but to my knowledge only the Gambia has a functional routine program for doing so. In other Sahelian countries, cases of reported pesticide poisonings are usually investigated, but such studies are seldom conclusive. Our draft environmental impact assessment recommends that field kits be developed for a public health monitoring system. I do wish to note that through our technical assistance and training support to national governments, we are helping to improve health safety so as to minimize negative health effects from pesticide applications.

SENATOR INOUYE: What is the cost of the U.S. locust eradication effort in Africa in comparison to other countries and can resources be found within existing A.I.D. accounts to meet the anticipated need?

AMB. WOODS: A.I.D. is closely monitoring the desert locust infestation to determine the appropriate contribution of the United States Government. Given the uncertainties associated with the severity of the plague, it is difficult to clearly define requirements. Staff technicians have calculated that the global cost may reach $196 million this calendar year, while the independent cost estimate of the Food and Agriculture Organization (FAO) is $175 million. Over half of these costs will be borne by governments of affected countries. Resources pledged by A.I.D. already total over $12 million. An additional $5 million is being identified for control campaigns and a "triggering mechanism" will be established to enable access to additional funds, if needed, to prevent late season threats to the agriculture of North Africa. A Congressional Notification will soon go forward increasing the life-of-project funding for the African emergency locust project to $26 million, of which $22 million is for the locust/grasshopper control component. It is anticipated that the U.S. Government contribution would represent about 15 percent of total donor support, depending upon other donor inputs and the resources available within the affected countries.

The budget needed this calendar year can be found within existing A.I.D. accounts.

It is highly probable that this plague will continue for another two to three years before being brought under control. Until then, global funding of $75-100 million a year will be needed to protect food and high value cash crops. Coinciding with our emergency control efforts, A.I.D. is working to strengthen national crop protection services so they can better respond to future infestations. This is now being supported with an annual U.S. Government contribution of $3 to 5 million.

## A.I.D. REPORTS/PUBLISHING

SENATOR INOUYE: Several years ago the Foreign Assistance Act was amended to authorize the Agency for International Development to prepare environmental profiles of the countries to which we provide assistance. Recently, I received a copy of one of these reports, the Thailand Natural Resources Profile, prepared under A.I.D. auspices and with A.I.D. funds. The 310 page report weighs 2 lbs. 4 oz., is printed on heavy stock, glossy paper, with high resolution photographs, two colors and page tabs.

How much did this report cost?

AMB. WOODS: The cost of printing the Thailand Natural Resources Profile was approximately $9,660.

SENATOR INOUYE: How does that cost compare to the cost of producing, for example, an A.I.D. evaluation report?

AMB. WOODS: 1,500 copies of the Thailand Natural Resources Profile were printed. Per page costs for the Profile, which was printed in Thailand, therefore, are roughly 2 cents, less than the cost of printing it in the United States.

SENATOR INOUYE: How much did A.I.D spend on non-government printers during the last four fiscal years?

AMB. WOODS: In A.I.D./Washington, we budget and manage separately operating expense funding for non-government printers. The following amounts (in thousands of dollars) have been spent for those printing services during the last four fiscal years:

| FY 1984 | FY 1985 | FY 1986 | FY 1987 |
|---|---|---|---|
| 1,035 | 1,345 | 1,076 | 1,058 |

Specific figures on the amount of program funds used worldwide or the portion of operating expense funds spent overseas for non-government printers are not available. A special review of individual missions and all projects would be required to obtain such information.

SENATOR INOUYE: Can you justify for this Subcommittee the need to spend additional tax dollars on such an extravagant report as the Thailand Natural Resources Profile?

AMB. WOODS: Mr. Chairman, in terms of per page costs, the Thailand Natural Resources Profile is a cheaper document than the standard A.I.D. evaluation report. Nevertheless, I believe there is an important issue here which should not be overlooked by a too narrow focus on the costs of printing the Profile. The Profile is our basic tool for raising the consciousness of Thai policymakers and other donors active in the country with regard to natural resources management, biological diversity and sustainable development. To be effective, our concerns must be presented in ways which will capture the attention of busy policymakers and national leaders. A wide range of individuals who have received copies of the Profile, including senior Thai policymakers, Thai and American environmental experts, and representatives of other donor agencies, have commented very favorably on both the substance and format of the publication.

I understand and, to some extent, agree with your point that scarce A.I.D. resources should be devoted to substance over style. On the other hand, I believe that a polished, professionally packaged document will oftentimes draw more attention and be taken more seriously than a poorly produced report.

## ENERGY

SENATOR INOUYE: Last year Mali adopted a new law requiring households to have at least two cooking stoves in place of the traditional open hearth fireplace. The reason for this law is the growing scarcity of firewood and the recognized inefficiency of traditional open hearth cooking fires. In a region where wood accounts for 90 percent of energy use, foreign aid experts are forecasting a clash between shrinking forests and a growing population's demand for firewood. At the same time, U.S. and western aid donors are expending large sums on tree-planting projects around the country.

Has A.I.D. encouraged the use of alternative energy sources in countries like Mali?

AMB. WOODS: A.I.D. is encouraging the use of alternative energy sources in countries like Mali through a two-pronged effort: (1) increasing fuelwood supplies and (2) reducing fuelwood demand. In Mali, A.I.D.'s $1.7 million Village Reforestation project is designed to develop and extend on-farm efforts for sustainable yields of food, forage and wood. Fuelwood production is a byproduct of such activities as tree plantations, living hedges, and windbreaks. This project also trains local private sector artisans in the production and repair of energy-conserving clay cookstoves. A.I.D. funded Volunteers in Technical Assistance (VITA), a U.S. private voluntary organization, to implement a $0.7 million improved, more efficient metal cookstove initiative in Mali. Also, policies such as those of the Mali government to replace traditional cookstoves with improved designs are very important. For example, in neighboring Niger, the A.I.D. Forestry Land-Use Planning project is influencing national policies which are increasing wood production of natural forests on a sustained basis.

SENATOR INOUYE: How effective have the A.I.D. programs been?

AMB. WOODS: A.I.D.'s programs have been very effective given the limited resources available. Various A.I.D. projects dealing with fuelwood and/or its conservation (e.g., cookstoves) are meeting a critical need, particularly in fuel-short areas of the Sahel region. While it is still too early to judge the full impact of these efforts to increase fuelwood supply, the preliminary results are encouraging. In addition to A.I.D.'s own positive impression of the two Mali efforts mentioned above, the New York Times on Sunday, March 20, 1988, reported on the "Fight to Save African Forests Turns to Stoves." The article (copy attached) describes the important contribution of clay and metal stoves for conserving scarce fuel. Also, the initial policy changes in Niger (as identified above) are being picked up as part of the efforts of other donors such as bilateral European donors and the World Bank in Niger. Additionally, intense interest is being expressed by neighboring countries such as Mali.

## ALTERNATIVE ENERGY AND THIRD WORLD DEVELOPMENT

SENATOR INOUYE: What funding resources has A.I.D. committed to exploring the ways in which alternative energy sources might be utilized in the less-developed world?

AMB. WOODS: It is difficult to determine an exact figure. In some cases (such as India, Thailand, the Philippines, Nepal, Tunisia, Egypt, the Sudan, and Morocco) specific A.I.D. projects have been exclusively devoted to renewable energy. But many of our projects have renewable energy as one of several components. For instance, we have helped fund an energy research laboratory in

Indonesia that includes renewable energy within its charge. We assist with energy planning and offer various types of energy training that include renewable energy.

In 1986 we estimated that the renewable energy components of 62 relevant projects active at that time totalled $158 million for the life of the project. This figure does not include forestry projects that were attempting to increase the availability of fuelwood, but does include projects that encouraged the dissemination of more efficient fuelwood-fired cookstoves.

SENATOR INOUYE: Has A.I.D. explored the possible uses of wind and solar power and, if so, how have these technologies been applied to Third World development?

AMB. WOODS: A.I.D. has explored many uses of wind and solar power through a number of the projects summarized in the response to the previous question. The most appropriate uses at the present time appear to be the following:

WIND MECHANICAL PUMPING. The main applications of wind mechanical pumping are for village water supply and livestock watering. Wind pumping competes favorably with diesel for water pumping when wind speeds are good and where water volumes are low. A.I.D. has tested such systems in Botswana and co-funded a manual for comparing alternative technologies for this purpose.

WIND ELECTRIC GENERATORS. Wind electric power generation for small loads is generally competitive with photovoltaics or diesel where wind speeds are good. A.I.D. is funding a wind system for water pumping in Morocco. Wind also is technically proven for larger grid-connected systems under appropriate conditions. Viability, however, is extremely sensitive to wind conditions at specific sites and alternative fuel costs. A.I.D. is looking at opportunities for such wind farms in India.

PHOTOVOLTAICS. Photovoltaics have proven to be reliable in developing country applications in remote areas and when power requirements are small but important--for example, for communications, refrigeration, and for remote health facilities. Under favorable solar conditions, photovoltaics are competitive with diesel for water pumping. These various applications have been funded in Botswana, Djibouti, and Tunisia.

SOLAR WATER HEATING. Solar water heating is a commercial technology for urban residential and commercial purposes, often competitive with electricity. Applications have been funded in Morocco and India. Industrial solar water heating is not generally attractive at current oil prices.

SOLAR DRYING. Solar drying by newly developed systems is feasible technically for agricultural drying, but it has not been widely used due to relatively higher cost compared with traditional systems. An application was funded in India. The energy and costs saved by solar dryers is normally relatively small, though the improvement in product quality is likely to be significant.

SENATOR INOUYE: Does A.I.D. maintain active liaison with industry leaders in the wind and solar power fields so that the latest technological innovations might be used to reduce the cost to LDCs of imported energy?

AMB. WOODS: A.I.D. maintains such liaison both domestically and in the less developed countries. The Agency plays an active role in the multi-agency Committee on Renewable Energy Commerce and Trade, which is led by the Department of Energy; an A.I.D. energy official chairs the education subcommittee. Representatives of wind and solar technology firms interact regularly with the committee and with A.I.D. staff. A.I.D. representatives are active in attending renewable energy conferences in order to be up to date on the latest technology developments and to meet with industry representatives.

In some of the A.I.D.-assisted countries, we have projects that attempt to assist in-country research and development and technology transfer from the United States. In India, for instance, we have recently begun a program in concert with the Government of India called the Program to Accelerate Commercial Energy Research, which is explicitly encouraging innovative technology and has already received proposals from firms interested in renewable energy.

## A.I.D. REPROGRAMMING

SENATOR INOUYE: A.I.D.'s congressional notifications provide information for oversight purposes on a project-by-project basis. However, because of the large number of fiscal year changes (both increases and reductions), it is difficult, if not impossible, for an overall comparison to be made between actual performance and that which was justified in the CPD.

Is the present A.I.D. system capable of producing statistical summaries of reprogramming actions categorized, for example, by country, region or functional area?

AMB WOODS: The Agency's current computerized system can produce statistical summaries of notifications to Congress. For example, information can be categorized by geographic region, country or regional program, and project activity.

SENATOR INOUYE: If not, what would adoption of such a capability entail and how feasible would it be, given administrative burdens, data management needs, etc?

AMB WOODS: Given that background, let me say that we are currently studying various computer configurations for improving the system. The management of a system like the one we envision will involve the cooperation of numerous bureaus and staff, and we will need to be confident that the costs involved, in the long run, would be worth the investment.

SENATOR INOUYE: What changes to the CPD, or to the planning, programming, and budgeting process leading up to it, might be warranted, since the CPD clearly does not provide adequate justification for funding? How can we make the CPD more timely and more relevant to A.I.D.'s actual program? Do you have any thoughts on this problem?

AMB WOODS: This is a question with which the Agency has struggled over the years, and one which has been the subject of extensive discussion in the last few years with committees in both houses of Congress.

You have really raised two issues: one regarding the level of detail of our program justification and the other regarding timeliness of the detail.

The first is, in my opinion, largely a function of the intensity of Congressional interest in the operational details of the Agency's budget. The necessity of providing an individual CP justification for each project requires that the detail be brief; the alternative would be to make the CP an even more voluminous document than it already is, which, at just under 2,000 pages, can hardly be considered brief in its entirety. It is, moreover, a costly document to produce. For that reason we would welcome suggestions from interested Congressional individuals as to ways to make the document more useful and cost-effective. I might add that, to the extent that the problem is one of project proliferation, we are looking at ways to cut down on the number of projects we deal with through greater program concentration.

As to the issue of timeliness, this is a function of the long lead time involved in bringing development projects to fruition, coupled with the changing environment in which we operate. Much as we might like, it is simply not possible to prevent changes in host country circumstances, or even our own foreign policy priorities, over time. Such changes unavoidably affect our planned allocations of resources between the time we request funds and the time they are available for obligation. Part of this issue goes back to the level of detail Congress is interested in, which requires us to notify on individual project changes rather than on country strategy or development areas. I would add that it has been helpful to get agreement with Congress on limiting the minimum level of such project changes, which has cut down somewhat on the number of notifications. Moreover, we anticipate that the use of the revised CPD report, which your Committee proposed, will considerably reduce the number of notifications. We would welcome additional ideas as to how we might focus our CP on more relevant and timely information.

SENATOR INOUYE: What are the underlying causes, both internal and external to A.I.D., for the large number of changes, and particularly for those projects that have more than one change during a single year?

AMB WOODS: Again, Senator, let me just say that the underlying causes are really twofold: the first has to do with the level of detail Congress requires for our CP justification and the other has to do with the long lead time required to bring developmental projects on line.

I might add, though, that at the end of the fiscal year A.I.D. has submitted numerous "insurance" notifications. These notifications are submitted so that in the event that obligation actions do not materialize in one activity, we can reprogram and obligate these funds in other activities. I realize this increases the number of notifications sent to the Congress, but it has been considered prudent management to be prepared for last-minute problems.

## QUESTIONS SUBMITTED BY SENATOR DECONCINI

### FARMER-TO-FARMER PROGRAM

SENATOR DECONCINI: Cost-effectiveness is an extremely important criteria in evaluating our foreign assistance programs. Although economic aid packages are designed to have a significant effect on world poverty, many times our foreign aid efforts encounter tremendous difficulties in reaching the target population. Programs with proven success records as well as excellent cost-benefit rations deserve our wholehearted continued support.

The Farmer-to-Farmer Program, financed as part of P.L. 480, is one such program. It locates highly qualified American farmers and technicians in order to solve specific problems of farmers in the developing world. Due to the very small amounts of bureaucracy required to run the program, the pay-off per aid dollar is extremely high. Furthermore, the program has consistently placed a higher number of volunteers than legislated, indicating an even greater level of cost-effectiveness than anticipated.

In my opinion, this program and others like it should be receiving more attention as part of our foreign aid dossier. Will you ensure an increase in funding levels for this and other such programs so that this successful strategy can be continued?

AMB. WOODS: Cost-effectiveness and economic viability are important criteria in allocating our development assistance budget. Programs that have a high economic rate of return and that have a proven track record need to receive adequate funding so their objectives can be achieved. Funding to support the Farmer-to-Farmer program has been earmarked at not less than one-tenth of 1 percent of the P.L. 480 appropriation level for the last two years, FY 1986 and FY 1987. The recently passed Agriculture and Trade Missions Act continues this Congressional earmark for three more years, ending September 30, 1990. I believe this is an appropriate level of funding for this program.

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### OVERSEAS SCHOOLS FUNDING DECREASE

SENATOR KASTEN: You are proposing a $1.5 million decrease in your contribution to the Department of State's Office of Overseas Schools, which affects educational facilities for employee dependents. Will the Department of State cover this decrease? If not, what will happen to the children affected by this decrease? Will they have to come back to the U.S. for schooling? If so, won't that cost more money than is represented in the decrease you've proposed?

AMB. WOODS: In developing our request for Operating Expenses, difficult choices had to be made in order to keep within the overall guidelines established at the "budget summit." The decision to reduce our contribution to this program was made because it will not have an immediate impact on the quality of the educational facilities available to dependents having to attend schools away from post.

I recognize that long-term reductions in the funding levels for this activity would have an adverse impact on our dependents. For this reason, I hope that this represents a one-time reduction to enable us to get through FY 1989.

I do not anticipate that the Department of State will be able to increase its contribution to this program to offset our reduced contribution.

### ENDANGERED SPECIES MANAGEMENT -- AFRICA IVORY

SENATOR KASTEN: What is the status of the grant application before A.I.D. from the World Wildlife Fund to provide for the operation of the Ivory Quota Control System? (Without this grant, the international control program on the legal export of ivory will cease to operate. The grant request is for $80 K. State, Fish and Wildlife, and the appropriate international organizations support this grant request.)

AMB. WOODS: The proposal has been technically reviewed and approved by the A.I.D. biological diversity working group and a decision has been made to provide $50,000 for this activity. The grant document is being prepared.

### A.I.D. INITIATIVES TO PROMOTE BIOLOGICAL DIVERSITY

SENATOR KASTEN: What initiatives does the Agency have under way to promote the conservation of biological diversity? (It's funded at about $4.5 million.)

AMB. WOODS: Last fiscal year (1987) was a landmark year for A.I.D.'s evolving program to conserve biological diversity. A.I.D. obligated $2,388,000 for 21 new activities in 15 developing countries to protect and conserve wild plants and animals, as authorized in Section 119 of the Foreign Assistance Act. We obligated another $2,500,000 for biological diversity activities as part of other Agency projects. We took other major steps that have provided a solid foundation on which to continue to build the program. For example:

1. A.I.D. established an internal Biological Diversity Working Group with responsibility for reviewing new projects and setting priorities.
2. The Agency promoted formation of a donor group, the

Consultative Group on Biological Diversity, composed of U.S. private foundations and A.I.D.

A.I.D. is now engaged in programming fiscal year 1988 funds, $4.5 million, for new activities to directly protect and conserve wild plants and animals.

SENATOR KASTEN: What level of expenditure will occur this fiscal year to promote this conservation? What is the level of funding worldwide to promote biological diversity?

AMB. WOODS: The Agency is now in the process of programming fiscal year 1988 funds in the amount of $4.5 million worldwide for new biological diversity activities which conserve and protect plants and animals in developing countries.

## MEDITERRANEAN FRUIT FLY UPDATE

SENATOR KASTEN: Regarding the spread of medfly in Central America, what is A.I.D.'s current assessment of the progress and success of the MOSCAMED project?

AMB. WOODS: The MOSCAMED program to eradicate Mediterranean Fruit Fly (medfly) from Guatemala is a United States Department of Agriculture (USDA) program, in collaboration with the Governments of Guatemala (GOG) and Mexico (GOM), which involves A.I.D. because the GOG contribution to the program is local currency derived from the P.L. 480 program.

The stated objectives of the MOSCAMED project are: (1) in the short term, to stop the advance of medfly toward Mexico and the United States, (2) in the medium term, to eradicate medfly from Guatemala, and (3) in the long term, to eradicate medfly from Central America.

MOSCAMED appears to have been fairly successful at achieving its short-term objective. Since the medfly arrived in Mexico in 1977 and the MOSCAMED program was initiated, the fly has been virtually eradicated from Mexico and a moving "barrier" has been established in Guatemala. However, in 1987, due to delayed USDA and GOM funding of the program, there were medfly outbreaks in southern Mexico, Belize, and behind the barrier in Guatemala. The funding problem appears to be repeating itself this year, but it is still too early to determine whether the scarcity of funds early in the year will again result in outbreaks in Mexico and western and northern Guatemala. Certainly, if funds are made available to the project in a timely manner, it appears technically possible to halt the northern advance of the medfly.

One problem which may affect the realization of this objective is the lack of complete commitment on the part of the GOG to the MOSCAMED project. Due to that government's concern over aerial spraying with malathion, the GOG has repeatedly expressed its unwillingness to maintain a medfly barrier within its borders. Aerial spraying in Guatemala was recently suspended at the request of the GOG pending further information on the longevity of malathion bait sprays. Without aerial spraying, the program does not appear to be technically feasible. Additionally, the GOG's perception that the principal beneficiaries of medfly eradication are the United States and Mexico has made the GOG increasingly reluctant to agree to the use of P.L. 480-derived local currency to support the project.

The project has been less successful in accomplishing its medium-term objective. In May 1987, the Assistant Secretaries of Agriculture of the United States, Mexico, and Guatemala approved a plan to eradicate medfly from Guatemala by 1991. Almost a year later the project appears to have made little, if any, progress toward this goal. As I have mentioned, delayed funding by the USDA and the GOM resulted in outbreaks behind the barrier last year, and the funding problem is being repeated this year.

Since MOSCAMED is a joint project involving the Departments of Agriculture of the United States, Mexico, and Guatemala, its long-term objective (eradication of medfly from Central America and Panama) does not appear to be within the scope of the project. The proposed CAPMED program, sponsored by FAO (United Nations Food and Agriculture Organization) and USDA is designed to eradicate medfly from Central America and Panama. I understand that planning for this program has been suspended until the environmental assessment of MOSCAMED is completed. The feasibility of the CAPMED proposal must be closely examined in view of its extremely high estimated costs, as yet undetermined benefits to the Central American region, and the difficulties of conducting ground and air operations in areas of political unrest. A.I.D. and USDA are jointly reviewing the economic and environmental feasibility of continuing MOSCAMED and the economic, technical, political, and environmental feasibility of CAPMED, in order to determine the appropriateness of contributing foreign assistance resources to these USDA programs.

## RIVER BLINDNESS

SENATOR KASTEN: Last year, the Committee recommended that about $4 million be used to supply ivermectin inoculations in areas plagued by river blindness.

Please give us an update on how much of this money has been used and will be used this fiscal year, in what countries the inoculations will be administered, and what progress, if any so far, has been made in slowing down the progress of the disease in affected areas.

AMB. WOODS: River blindness, or onchocerciasis, is a terrible disease that afflicts several million people in the developing world. For this reason, A.I.D. is a major supporter of the World Health Organization/World Bank Onchocerciasis Control Program (OCP) which has successful programs in 11 West African countries. In FY 1988, we plan to contribute $2.5 million to this program.

A.I.D. is working with WHO and the OCP to carry out an accelerated program of community field trials to determine ivermectin tablet's safety and utility in treating the disease and in blocking its transmission. Last year A.I.D. provided an extra $300,000 to the WHO Tropical Disease Research Program specifically for this purpose. WHO has informed us that it requires only $1.3 million for the field trials of this drug in FY 1988. It is our belief that we can usefully obligate a total of $1.3 million in FY 1988 for this program, and we intend to do so.

The community trials are being carried out within the OCP area in Ghana, Ivory Coast, Togo, and Guinea; and outside that area in Cameroon, Liberia, and Guatemala. These trials are still testing the safety and efficacy of ivermectin, and it is therefore premature to expect evidence that the drug has inhibited transmission of the disease. Once the safety and efficacy of ivermectin has been determined, all possible steps will be taken to make it widely available.

## TRAINING FOR BIOLOGICAL DIVERSITY

SENATOR KASTEN: What is the Agency doing to promote the training of additional tropical biologists and botanists? (Note: some of the best graduate programs in this field are at the University of Wisconsin.)

What is the Agency doing to promote the training of foreign nationals in these areas of biological diversity?

AMB. WOODS: Biological diversity training in areas such as botany and biology is an important aspect of the Agency's expanding program. For example, during fiscal year 1987, A.I.D. provided a grant to the African Wildlife Foundation in Tanzania for professional training for Africans in wildlife and wildlands management. A conservation training and extension program is being developed at Mweka College, and library, classroom, and laboratory facilities are being expanded and upgraded.

A project activity in Burma is providing professional training for Burmese natural resource and wildlife managers through the U.S. National Park Service in cooperation with World Wildlife Fund-U.S. On an A.I.D.-funded biodiversity project in Thailand, villagers living near sea turtle nesting sites along the Thai coastline are being trained to manage nesting reserves, conduct antipoaching patrols, and assist with other aspects of local natural resource management.

During the last fiscal year, A.I.D. supported technical and academic degree training in the United States for more than one thousand people from developing countries in biological, agricultural and environmental sciences disciplines.

## BIOLOGICAL DIVERSITY POTENTIAL

SENATOR KASTEN: Since 24 to 40 percent of new medicines are coming from tropically derived sources, we feel that these matters of biological and genetic diversity should receive high priority.

How closely do you work with American industry in investigating the potential uses of genetic diversity?

AMB. WOODS: The Agency for International Development (A.I.D.) shares the view that activities to conserve and utilize biological diversity are of high priority. We have supported efforts to conserve and protect plant and animal germplasm for many years, primarily among crop and livestock species and their relatives. However, with the growing realization that all plants and animals constitute important biological diversity, often of unknown potential, our efforts have broadened to include preservation of all kinds of plant and animal species. In some cases, these have been targeted on particularly endangered species; in others, protection of an array of biotic resources is being achieved through habitat conservation using preserves, parks or other special status.

As to medicinal uses of tropical plants, the Bureau for Latin America and the Caribbean is supporting activities by such groups as the New York and Missouri Botanical Gardens. In Ecuador, a project is studying plant uses, including medicinal ones, by the native cultures. In this case, the Botanical Gardens are working with the University of Illinois to screen plant materials for possible use in pharmaceuticals. The same institutions have conducted A.I.D.-sponsored work in Peru's Amazonian region, looking at uses of plants and screening for medicinal uses. In Belize, we are in the final approval stage for a New York Botanical Garden project collaborating with the World Wildlife Fund-U.S., Belize Audubon Society and the National Cancer Institute which will conduct surveys on the uses of native plants and their possible use against common diseases as well as against 100 types of human tumors and two AIDS virus systems.

The role of the private sector in initiatives related to biological diversity is increasing, and A.I.D. has been helped to initiate new activities. In a recent conference sponsored by the Office of Agriculture in the Bureau for Science and Technology, leaders from industry, universities, international research centers and developing countries gathered to explore opportunities for collaboration in a number of areas including genetic resources. Industry spokesmen indicated their flexibility and interest in being partners with public sector organizations in undertaking important activities that can lead to economic benefit for participants. There are already examples of the private sector supporting genetic diversity work in crop plants, and we are currently reviewing a proposal that would involve several U.S. pharmaceutical manufacturers in similar efforts aimed at medicinal uses of plants.

SENATOR KASTEN: Would you comment briefly on the new strains of cereals and other food stuffs which are now playing, or have the potential to play, significant roles in world food supplies?

AMB. WOODS: New strains of cereals have increased, and are continuing to increase, the production of food and improve the lives of people in developing countries.

Roughly 50 percent of wheat and rice area in less developed countries in 1983-84 was planted to high-yielding varieties which are usually characterized by stiff, short stems. First introduced by the International Rice Research Institute and the International Maize and Wheat Improvement Center in the mid-1960s, continually improved strains of cereals have been developed by national research programs. Broadening of the genetic base has become an important activity in A.I.D.-supported research on crop improvement. These crop improvement programs show the potential uses of genetic diversity for obtaining disease resistance and stress tolerance in plant genes.

Improved varieties of corn, sorghum and many other non-grain crops such as cassava and sweet potato have also been developed in other collaborative programs, and are coming into wide use. These crops are important to family farms in many areas of the tropics. For example, in tropical Africa and much of Latin America, maize, cassava and other root crops can produce good yields and provide the dietary base for millions of farm families. In highland areas, potatoes and beans make important contributions to the diet. In the drier areas of the tropics such as the Sahel, sorghum, millet, groundnut, and cowpeas are staple crops, providing good basic nutrition despite low yields.

A.I.D. sponsors Collaborative Research Support Programs (CRSPs) on beans, cowpeas, sorghum, groundnut, millet and other crops as well as sheep and goats. A.I.D. supports research aimed at improving these crops, livestock, and overall production systems. Working with and through national programs, we are testing crop strains, often with very diverse genetic backgrounds, and releasing them to farmers across production zones. These efforts are underpinned by research institutions in the United States, which A.I.D. involves through the CRSPs. A.I.D. also contributes to the support of the International Agricultural Research Centers, whose research mandates include most of the important tropical food crops. Thus, U.S. and international researchers and institutions form a partnership with national research programs to mount a comprehensive agricultural research effort. U.S. agriculture also gains through a growing flow of germplasm, technology, and business opportunities.

While much has been accomplished to date, there is substantial potential for new gains. Provision of productive, adapted crop strains for the next decade and century requires our attention now. Continued research is needed in plant breeding, agronomy and in soil and water management. Environmental and sustainability issues are being given increased emphasis. Issues of future food supplies, biological diversity, and environmental conservation are inextricably linked. While the mutual dependency of man and environment is particularly evident in the developing world, we recognize that the issues contributing to this balance are global ones, in which we all have a stake.

## CARBON DIOXIDE BUILD-UP

SENATOR KASTEN: Scientific evidence is clear that we are experiencing a real problem with $CO_2$ buildup in our atmosphere. Indications are that we are already experiencing an aggregate one degree rise in annual temperature in the northern hemisphere. Conservative projections indicate we can expect to see another degree rise in 20 years. This will start to have serious environmental consequences, as you can imagine.

Developing nations account for about 20 percent of the annual carbon loading in the atmosphere. The greatest potential for increase in carbon loading is in developing nations, and would most likely come from two major sources: fossil fuels and forest destruction.

Does A.I.D. consider the potential greenhouse effect of projects it is considering supporting?

AMB. WOODS: Yes, A.I.D. does consider the potential greenhouse effect in proposed activities along with other environmental and economic objectives that the Agency is pursuing. And a recent review of our current projects has concluded that those several objectives often coincide in important ways. For example, a consensus (which includes activists in the environmental community) has emerged that the principal approach to the $CO_2$ problem should be to emphasize efficiency in energy systems. A.I.D. has several major energy efficiency programs in place.

The approximately seventy developing countries assisted by A.I.D. are responsible presently for between 5 and 10 percent of the carbon added to the atmosphere each year from the combustion of fossil fuels. In order to improve their economies and increase their standards of living, they will undoubtedly have to increase their use of energy, and some of the additional supply will come from fossil fuels. The challenge is to minimize the latter increase while pursuing desirable economic development.

But even significant efficiency gains will not come close to providing less-developed countries with the energy needed for development. Inevitably, more power plants using fossil fuels will be built in order to meet burgeoning demand. Therefore, two other facets of our strategy are also important: (1) promotion of the use of so-called clean coal technologies, which reduce the emissions of health- and environment-threatening particulates and gases other than $CO_2$; and (2) promotion of the use of natural gas, the fossil fuel that emits the least $CO_2$ per unit of useable energy.

Another approach is to encourage the use of renewable energy. During the 1980s, A.I.D has funded more than sixty projects with renewable energy as a significant component. Major projects were recently completed in India, Thailand, the Philippines, Nepal, and Tunisia, and major projects are currently being funded by the A.I.D. Missions in Egypt, the Sudan, and Morocco, and by the central Office of Energy. These projects cover solar, wind, geothermal, small hydro, and biomass technologies. There have been some success stories, but it is important to remember that some of these technologies do not yet have a clear economic superiority to fossil fuels except in site-specific cases, and so we cannot expect a quick transition to a renewable system.

On a proportional basis, the greatest contribution to $CO_2$ build-up by developing countries presently is deforestation. Reforestation is important, and A.I.D. is funding some efforts in that area, but the funding needs are large and the major portion of that work falls to the World Bank. The principal, although not exclusive, cause of deforestation is agricultural expansion, and A.I.D. is expending significant funds on increasing agricultural productivity on already cleared land and on agro-forestry, which can help increase agricultural production. Not counting the exclusively agricultural projects, A.I.D. funded 132 forestry projects in 43 developing countries in 1987.

SENATOR KASTEN: How is A.I.D. doing in improving the environmental aspects of MDB projects through the "Early Warning System?" What are A.I.D.'s bilateral activities in improving environmental impacts of specific projects?

AMB. WOODS: Our participation in the Early Project Notification System has had a strong and positive effect in improving the environmental performance of the multilateral development banks (MDBs). However, in the last year, the United States has abstained from voting or voted against a number of bank loans on the basis of environmental concerns. We believe, however, that still more must be done by the MDBs to ensure the environmental soundness of their projects. We are also working closely with other governments, in both bilateral negotiations and through the Organization for Economic Cooperation and Development to encourage them to examine the environmental consequences of MDB-financed projects.

A.I.D. has formal environmental regulations designed to prevent negative environmental consequences of its project activities. These requlations require the integration of environmental considerations into all projects. This includes conducting initial environmental examinations and, when appropriate, environmental assessments or environmental impact statements to evaluate the negative impacts of A.I.D.'s activities. Such reviews enable A.I.D. together with host country governments to consider appropriate alternative project designs and mitigating actions.

SENATOR KASTEN: What major initiatives is A.I.D. undertaking to increase energy efficiency in developing nations? (Increased efficiency will reduce the carbon loading per work unit.)

AMB. WOODS: Developing countries show significant promise for cost-effective improvements in energy efficiency and conservation. These countries presently exhibit a 1.4 percent increase in electricity use for every 1 percent increase in economic growth. Through rigorous implementation of efficiency measures in both production and use, developing countries could realize a 0.9 percent ratio by the year 2000, the same as has been achieved in the United States. While technically possible, full implementation of these measures will face institutional and political barriers.

A.I.D.'s Office of Energy has a nine-year, $14 million project that offers assistance to A.I.D. countries to help them increase efficiency in their utility systems, industrial processes, buildings, and transportation. A.I.D. Missions in Egypt, Morocco, Pakistan, and the Philippines have initiated conservation projects focusing on transfer of proven energy-efficient industrial technologies, design of national energy demand programs, and implementation of power sector performance improvement programs.

## EMPLOYER PROVIDED FAMILY PLANNING

SENATOR KASTEN: On page 60 of your congressional presentation (main volume) you state that, "A.I.D. is actively encouraging private firms to pay for and provide family planning services for their employees." Give us examples of the kinds of employers who are providing this service. Can we be certain that the employees receiving these services are advised on a wide range of options?

AMB. WOODS: A.I.D. has encouraged a wide range of employers to provide family planning in developing countries, including small companies and some are multinational affiliates (e.g., Unilever, Chevron, Firestone). These firms have a large number of low-income employees who express an interest in family planning as an employee benefit. Many already provide some health services to their employees to which family planning can be added. As with all A.I.D.-sponsored family planning programs, a wide range of legal and culturally acceptable methods are offered.

SENATOR KASTEN: What countries will institute such programs in the foreseeable future? Will these employers use A.I.D. funds to implement this idea?

AMB. WOODS: Approximately 30 countries will benefit from A.I.D.'s worldwide efforts to encourage employer-provided family planning programs over the next five years. Bilateral programs which contain a large employer-provided family planning component are scheduled to begin in Indonesia and the Eastern Caribbean in the coming year. Approximately 4 percent of the population planning account is devoted to this activity.

SENATOR KASTEN: We agree that private sector approaches are good for many things, but does this encourage employers to do things that A.I.D. itself cannot do with respect to abortion counselling or services?

AMB. WOODS: No. Under the Mexico City policy, A.I.D. cannot fund foreign non-governmental organizations that promote or support abortion-related activities with funding from any source.

SENATOR KASTEN: Who will monitor this program?

AMB. WOODS: Two worldwide projects, one in services and one in policy development, are monitored by A.I.D.'s central Office of Population. Bilateral projects in countries such as Kenya, the Eastern Caribbean, and Indonesia are monitored by the A.I.D. Missions.

## NON-FEDERAL MATCHING FUNDS FOR BIOLOGICAL DIVERSITY

SENATOR KASTEN: In previous years, there has been a substantial non-federal match to A.I.D.'s biological diversity programs. What is the level of non-federal money provided for this year?

AMB. WOODS: During the past fiscal year (1987) 12 of 21 biological diversity earmark activities were matched with funds from other organizations; in FY 1987 A.I.D.'s $2.388 for activities in 15 countries was matched by contributions from others exceeding $3.35 million. Approximately $700,000 of these contributions were from private, non-federal sources, primarily private and voluntary and non-governmental organizations, with the balance made up of commitments by other U.S. federal programs, other donors and developing countries.

The Agency is currently in the process of committing $4.5 million this fiscal year to new biological diversity activities. While negotiations and commitments are still evolving, 1988 matching funding contributions are likely to exceed those reached during the previous year.

## OTHER FEDERAL AGENCIES PROMOTING BIODIVERSITY

SENATOR KASTEN: What U.S. federal agencies are promoting biological diversity? (The main ones are the Smithsonian, Fish and Wildlife Service, and the Office of Technology Assessment.) Which of these agencies do you work the most closely with? Does any agency serve as a clearing house to monitor U.S. international activities which have a positive or negative impact on biological diversity?

AMB. WOODS: Among the U.S. federal agencies that have biological diversity programs, the U.S. Fish and Wildlife Service and the National Park Service in the Department of the Interior and the Peace Corps stand out as having a particularly important role. It is with these agencies that A.I.D. works equally closely.

No federal agency currently serves as a clearing house to monitor all U.S. international activities which have a positive or negative impact on biological diversity.

## SUBCOMMITTEE RECESS

Senator INOUYE. With that, I would like to thank you for your initial visit with us. Your words have been most helpful.

We will now stand in recess until 10 a.m., Thursday, April 28, 1988. At that time, I will meet with you again.

[Whereupon, at 12:05 p.m., Tuesday, April 26, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 28.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

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THURSDAY, APRIL 28, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:05 a.m., in room S–126, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Lautenberg, Harkin, Kasten, and D'Amato.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### STATEMENT OF AMBASSADOR ALAN WOODS, DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, AND ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:

- CHARLES L. GLADSON, ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA
- JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND NEAR EAST
- DWIGHT A. INK, ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

### OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order.

This morning we will continue our examination of the President's request for fiscal year 1989 funding of foreign assistance programs. Once again, this subcommittee will be looking into the operation of the Agency for International Development. Today our attention will turn to some of the country programs managed by A.I.D. and their impact on American foreign policy.

Once again, we are fortunate to have with us this morning the Honorable Alan Woods, the Administrator of the Agency for International Development.

Mr. Woods, we have received your prepared statement, and without objection, that statement will be made part of the record.

So, please proceed as you wish, sir.

### INTRODUCTION OF ASSOCIATES

Ambassador WOODS. First of all, Mr. Chairman, I would like to introduce my colleagues who are with me this morning.

On my right is Mr. Dwight Ink, who is the Assistant Administrator for the Latin America and Caribbean Bureau. On my far left is Mrs. Julia Bloch who is Assistant Administrator for our Asia and Near East Bureau; and on my immediate left is Mr. Charles Gladson, who is the Assistant Administrator for the Africa Bureau.

### ASSISTANCE PROGRAMS

I think we should move rather quickly to questions this morning, but I did want to make just a few remarks. One of the things that we are trying to do in our program is something we discussed on Tuesday, and I am particularly glad that you raised it. It seems to me that if the United States is to provide leadership in the world in the area of economic development, we must have the capacity to do a lot of different things because in the range of countries we assist, there are a lot of different requirements. As we look at our country programs, we must also have the discipline to focus our assistance in each country on the programs that are most necessary to help the development of that particular nation.

### BUDGET REQUEST

In our request for this year, I would like to emphasize the Development Fund for Africa, which has just started in this current fiscal year, fiscal year 1988. We will be talking about that. We will be talking about the Economic Support Fund [ESF] activities, budgeted this year at $3,200 million, with $3,281 million requested for fiscal year 1989. ESF for the most part supports the peace process in the Middle East and security and development programs in Central America. We also support Mrs. Aquino's government in the Philippines and our collective security alliances around the world. I would mention in particular that we have focused this year on restoring funding in our fiscal 1989 request that was not available for some countries in fiscal year 1988, particularly in the Caribbean.

The final thing I would say is that there are a lot of unknowns in the world that we have to have some appreciation for: the situation in Panama, the situation in Haiti, the situation as it will unfold in Afghanistan as a result of the agreements signed in Geneva. Those are matters about which we do not have much information. It is hard to predict what the future will be in those situations, and, therefore, difficult to forecast our future role. These are issues about which we will need to consult with the committee as the year goes forward.

Thank you, sir.

[The statement follows:]

# STATEMENT OF
# ALAN WOODS
# ACTING DIRECTOR
# INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
# AND
# ADMINISTRATOR
# AGENCY FOR INTERNATIONAL DEVELOPMENT

## Introduction

Mr. Chairman, it is a pleasure to appear before you to present the Administration's FY 1989 proposed program for foreign economic assistance.

The overall fiscal framework established by the Budget Summit in November has challenged us to formulate a budget request that will meet our country's highest priority foreign policy and economic assistance objectives with extremely limited resources. Because of these fiscal limitations, our FY 1989 request is essentially straightlined from FY 1988.

A combination of critical foreign policy needs that must be met through the foreign assistance budget, changing country requirements, and severely limited budgetary resources demands that we look very carefully at our whole program to ensure that we are pursuing our objectives in the most effective way.

Foreign aid is critical to the achievement of U.S. foreign policy objectives, -- objectives which are inextricably tied to the economic health of our country. The economic growth and development of other nations is clearly in the interest of the United States -- just as it is in the national interest of the countries to which we provide assistance. Domestically, however, these linkages often are understood poorly, particularly in times of overall budget stringency.

## Benefits to the United States

Political stability based on economic stability in, for example, the Middle East and Central America is basic to U.S. national security interests. Without U.S. assistance, the prospects are grim for economic growth in many Third World countries that are increasingly important to us politically and as trading partners.

The returns on U.S. investments in the economic growth of other countries are demonstrable. Some of this investment began 40 years ago. Today, Western Europe and Japan, helped by the U.S. following World War II, are economically sound - they are our allies - and they are also leading consumers of U.S. exports.

Dramatic progress has also been made by early recipients of U.S. economic assistance that began about 25 years ago. Korea, Taiwan, Brazil and Greece are examples. Many countries that received U.S. assistance when they were "developing" are now "newly industrialized". As such they have become important trading partners of developed countries and they are also in a position to help other less developed countries.

Our foreign aid investments over the past twenty-five years have resulted in significant economic benefits to the U.S.

-- Taken together the developing and newly industrialized countries purchase more than 35% of all U.S. exports.

-- For 1987, exports to these nations were worth $81.6 billion to the U.S.

-- Our sales of manufactured goods to developing nations are impressive. In 1987, 34% of our earnings in America's top export line -- machinery and transport equipment -- came from sales to developing countries.

High rates of economic growth in other countries for the last several decades have benefited U.S. farmers. Developing countries' agricultural imports from the U.S. increased fifteen-fold from 1970 to 1981.

- Of the 50 largest buyers of U.S. farm goods, 21 are countries that used to receive PL-480 food aid from the U.S.
- Korea now buys as much from U.S. farmers in one year as it received in its 25 years as a PL 480 recipient.

Benefits to LDCs

U.S. foreign aid brings substantial improvements in the quality of life in LDCs. As a result, our assistance is one of the most important means of promoting the humanitarian ideals and democratic values of the American people.

Without our food aid, an estimated 20 million people would have died in Sub-Saharan Africa in one of the worst droughts in history. Americans are justly proud of their role in this emergency relief and we will continue to respond to such needs in the future. The challenge from this experience is to help countries develop to the point where they can survive their short term crises and resume strategies aimed at growth and development rather than continue to depend on large amounts of external relief.

There are many sustained improvements in the quality of life in LDCs with which we are proud to have been associated:

- Substantial progress toward reducing world poverty and improving the basic conditions of life. Between 1960 and the early 1980's GNP per capita in developing countries, excluding China and the high income oil exporters, rose by 75 percent.
- The reduction of child mortality by one half;
- The elimination of smallpox from the world;
- The entrance into primary school of the majority of children in developing countries;
- A 10-20 year increase in life expectancy in the Third World;

-- The ability of many couples throughout developing countries to voluntarily plan the number and spacing of their children.

## A Strategy for Economic Development

A strategy for broad based and sustainable economic development includes a number of critical and mutually reinforcing elements: a political and economic climate in which economic growth can occur; a vital private sector; the human capital necessary for productivity; institutional structures that will sustain growth and broaden participation of the people; access to technology with which to improve productivity, health and communications; and, a national capacity to manage rather than simply exploit resources -- financial, natural and human.

I would like to cite some successful examples of A.I.D.'s strategy upon which we intend to build in the future.

## Economic Growth

The first element in our strategy is a sound economic policy climate to stimulate growth and promote efficient resource use. Many economic problems in developing countries result from economies controlled by the government and shielded from the operation of market forces. Through experience, A.I.D. has identified and targeted for change specific policies which are detrimental to growth in developing countries.

-- Price control policies, protectionist trade regimes, and regulations that limit broad participation in the economy or shield government-owned enterprises from private sector competition all work against the nations that apply them -- while offering these nations the illusion of being in control of their economic destiny.

-- Instead of harnessing the entrepreneurial energies of

> their people, many of these nations are driving their entrepreneurs underground, as a recent study in Peru and anecdotal information from many other countries attests.

The trends toward economic policy reform have already been embraced by some developing countries, for example Nigeria, without donor involvement. However, the transition to a more appropriate economic policy environment requires difficult decisions that many governments predictably resist. Recognizing this, the U.S. and other donors must include in their assistance strategies measures to ameliorate the short term consequences of policy reform, while at the same time improving the indigenous capacity to analyze policy problems and alternatives and to manage the reform program. Our African Economic Policy Reform Program is attempting to do just that in several countries, by providing temporary balance of payments and budgetary support along with technical assistance and training in support of significant reform programs.

Substantial progress has been made in adopting economic policy and institutional changes necessary for growth in a number of countries including: Bangladesh, the Dominican Republic, Costa Rica, Ecuador, Guatemala, the Gambia, Ghana, Jamaica, Indonesia, Tunisia, Senegal, Niger, Swaziland and Mauritius.

In Bangladesh, policy reforms have stimulated economic growth while also meeting the needs of the poor. For example, PL 480 Title III food aid has been used to elicit important operational and policy changes that encourage farmer production. Food subsidies to segments of the population have also been cut by up to 75 percent. Buffer stocks and distribution management have been used to stabilize prices and make food more affordable to the rural poor. Prior to the recent floods, wheat production in Bangladesh was dramatically increased and near self-sufficiency in rice production had been achieved.

As a result of other reforms, associated with the Fertilizer Distribution Improvement Project, farmers in Bangladesh are now paying more reasonable prices and using more fertilizer to produce more food and increase their incomes. When A.I.D.-sponsored analysis revealed that fertilizer subsidies and government marketing costs threatened to absorb the country's entire agriculture budget, Bangladesh officials instituted reforms to encourage participation by private fertilizer retailers. These private entrepreneurs significantly expanded the reach of the distribution system at competitive prices.

Guatemala now has an impressive record of successful economic reforms and an improved business climate. The country is on a tenuous but credible path back to sustainable, positive economic growth rates as a result of these reforms. Inflation has been brought down from more than 30% in late 1986 to under 10% in 1987. Foreign debt repayments have been kept current. The exchange rate has remained stable for more than 15 months. From January to June 1987, foreign investment was up by $90 million over the same period in 1986. The Bank of Guatemala reports a 2.5% growth rate for 1987 -- only the second positive real GDP growth rate in five years.

## Private Enterprise

Most governments in all parts of the world have begun to realize that their public resources will never be adequate to provide all the goods people need or the kind of income and employment opportunities that are key to sustained economic growth. Policy changes that open up new opportunities for the operation of market forces both domestically and internationally are essential to provide the climate within which to increase the private sector involvement in development. In addition to encouraging such policy reforms, A.I.D. is working directly with the private sector to produce increased incomes, self-sustained employment, and higher standards of living. Our commitment to this focus is exemplified by a wide range of activities in such areas as investment and export promotion, management and skills training, credit and financial markets development and technology transfer.

Jamaica has made major strides in restructuring its economy for growth, following seven consecutive years of economic decline. Major government enterprises have been sold to the private sector, eliminating a major drain on the government budget, and the tax system has been greatly improved. As a result, the economy is now recovering, and unemployment among job seekers has fallen below 10% for the first time in more than a decade.

## Human Capital

The beneficiaries of economic growth are people. Those same people are also the human capital for that economic growth. The economic and political climate must engage the energies of people and offer productive employment opportunities that allow individuals the means to contribute and to provide for themselves and their families. Without education, skills and technology, people in developing countries are handicapped in their attempts to improve their own lives and to participate in and contribute to the economic growth of their societies. A.I.D. projects to raise the level and quality of education, health and participation in society are a direct investment in the human capital of a country and an important part of its overall economic growth strategy. Countries such as Jordan, Tunisia, Taiwan and many others have grown exceptionally rapidly over the past three decades, meeting the needs of their citizens much more effectively and equitably than most of their neighbors. They have done so by investing in strategies which improved health and education and relied on relatively free markets and private initiatives.

A.I.D. has given particular importance to education in areas such as Central America and the Caribbean. Though many qualitative and administrative problems remain, most countries have made major progress toward full enrollment. In Honduras, El Salvador and Costa Rica, for example, most children are now enrolled and almost 60 percent complete primary school.

Botswana, an example from a very different part of the world, has moved rapidly from few educated people at independence to a situation today in which most children can expect to complete at least primary school and planners are beginning to worry about how to match school graduates with available jobs.

## Institutional Structures

Our aid is also directed toward strengthening the institutional structures that are critical to sustainable development and democratic processes in developing countries.

In some countries, such as Kenya and Indonesia, we are working to liberalize the financial system and strengthen the capital markets and stock exchanges. In many of the Caribbean and Central American countries, we are supporting business and trade associations that help the private sector present its views to host governments. We have also provided funding for trade and investment promotion groups that promote trade between U.S. and developing country private enterprises.

The Rural Savings project, initiated in 1982 to address credit constraints to small farm producers, has shown that the mobilization of local savings could not only strengthen rural financial institutions, but also provide local, and therefore sustainable, funds for lending. Moreover, transaction costs to farmers distant from banks were too high, due to the expenses of transportation, lodging and time lost from work -- all burdens required of farmers in order to secure a loan. The project recommended approaches that capitalized on local informal institutions, connecting them with a second tier of credit unions, thus reducing costs and increasing reliability of credit delivery to remote small farmers. These approaches have proved successful in locations as diverse as Honduras, Bangladesh and Niger.

Institutional strengthening has been successful in other arenas as well, such as the activities to improve democratic participation in the Central American countries of Guatemala, Honduras, El Salvador and Costa Rica. These efforts are intended to achieve economic stability and renewed long-term growth; to promote broader participation in development; and to strengthen democratic institutions and respect for human rights, thereby consolidating the region's progress toward democracy and helping to deal with the underlying sources of social and political unrest.

Changes become permanent only when a broad segment of society values them and benefits from them. That is why we work so hard to ensure that the people who need to be involved in creating change are actually involved. We know that in many situations, it is the women of a country who play a critical role in institutionalizing new behavior -- on the farm and in businesses, as well as in the family. Our programs must reach them and engage their energies.

### Technology

Through our assistance programs, we are making available and more accessible technology, developed by the U.S., that can make a critical difference in productivity, health and communications. The development of a malaria vaccine, the institutionalization of the use of oral rehydration therapy (ORT) for treating diarrheal disease, "the green revolution" in agriculture and access to education through radio in remote village areas evidence the importance of technology to the survival and quality of life of millions.

The technology for oral rehydration has been successfully institutionalized in Egypt with A.I.D. assistance. In 1979, A.I.D. undertook an experimental ORT program that cut the infant mortality rate by 40% in just a few months. A subsequent $36 million A.I.D. project begun in 1981 and extended through 1990 has helped to extend the program nationwide. The oral rehydration salts are packaged by a private Egyptian firm, 60% of the packets are marketed through private pharmacies and over 90 percent of pharmacies now have oral rehydration salts available for sale.

## Capacity to Manage Natural Resources

Most developing countries depend principally on their renewable natural resource endowments for economic growth, and will continue to do so for the foreseeable future. Yet the resources essential to economic growth in developing countries are threatened by rapid population growth, extreme poverty, resource tenure problems, pollution of the air, water and soil, short-sighted economic policies, and economic and political instability. The Agency's central environmental objective is to promote environmentally sound, long-term economic growth by assisting developing countries to conserve and protect the environment and manage their exploited resources for sustainable yields.

A salient example of the types of activities supported by A.I.D. to achieve this objective is the Regional Integrated Pest Management Project in Central America. This project strengthens national and regional capabilities for integrated pest management, the control of pests that destroy crops using a variety of techniques that minimize application of chemical pesticides. As a result farmers can cut production costs while maintaining or increasing yields. In addition to increasing income and improving sustainability, a reduction in pesticide use also has the potential to improve local water quality and improve health by reducing exposure to pesticides.

This integrated strategy for achieving broad-based and sustainable economic growth and improving the quality of life in developing countries is reflected in our FY 1989 Request.

FY 1989 Request

For the FY 1989 bilateral economic assistance programs, A.I.D. is requesting an authorization and appropriation of $5,485,651,000 for Development Assistance (DA) and the Economic Support Fund (ESF).

The FY 1989 request reflects agreement between the Administration and the Congress on overall levels set in the bipartisan budget summit. Although essentially straightlined the FY 1989 budget reflects slight increases in ESF, the Education and Human Resources account (Section 105) and the Private Sector, Environment and Energy (Section 106) account. Critical ESF funds in a number of base rights and Caribbean, Central American and Andean countries were cut or eliminated in FY 1988. Some funding has been restored for the Caribbean and Andean countries in the FY 1989 request. The Education and 106 accounts are particularly important to our ability to continue certain priorities which the Congress shares -- in the case of education; basic education efforts and participant and regional training; in the case of Section 106 -- to permit continued support of PVOs, funding for energy, environment and private sector development activities.

The FY 1989 Request reflects a significant effort on our part to take fully into account Congressional concerns as to the appropriate mix of programs within that agreed ceiling, as reflected in the FY 1988 Continuing Resolution. The resulting budget request for FY 1989, we hope, will persuade Congress to provide the Administration a greater degree of flexibility in the programming of funds in FY 1989 as a result of agreement on the basic priorities of the foreign assistance program.

## Development Fund for Africa

For FY 1989, A.I.D. is requesting $510 million for the Development Fund for Africa (DFA). In FY 1988 Congress approved the Administration's request for a special funding mechanism for Sub-Saharan Africa to replace the traditional functional account divisions (as well as the Sahel Development Program account) and provide for greater flexibility in addressing the complex problems that continue to beset that continent. We believe that this Fund might also be a forerunner of the future direction for A.I.D. overall.

With the establishment of the Development Fund for Africa, A.I.D. has the latitude it needs for a broad-based growth strategy. We intend to use this flexibility to make our program more performance-based by shifting resources to countries and programs where results are being achieved and to integrate non-project and project resources in a more coherent package. In an effort to prioritize, the FY 1989 request is based on a further shift in resources toward the more populous countries, the poorer countries and those that are most committed to creating an environment in which growth and development can take place.

## Other Functional Development Assistance

The Agency's FY 1989 request for the Functional Development Assistance program outside of Africa totals $1.140 billion. The comparable FY 1988 appropriated level is $1.161 billion.

### Agriculture, Rural Development and Nutrition

An appropriation of $461,062,000 (not including agriculture activities funded under the Development Fund for Africa) is requested in FY 1989 for the Agriculture account compared to an FY 1988 appropriation of $488,715,000. A.I.D.'s FY 1989 ARDN program focuses on increasing the incomes of the poor majority and assuring the availability of food, while maintaining the natural resource base. This is based on recognition that efforts to address virtually all development problems, including hunger, infant mortality, disease, illiteracy and inadequate shelter will be frustrated unless rural incomes increase sufficiently to stimulate sustained economic growth. Activities are designed to: increase farm and non-farm employment and income; promote private agricultural marketing and distribution systems; develop sustainable improved agricultural technologies; encourage market-oriented, efficient low-cost production of food and other crops on small family farms; provide targeted food assistance to children and women in low income families and incorporate sound nutritional and food consumption principles into the design and implementation of agricultural and rural development activities.

Examples of activities we expect to fund in FY 1989 in Asia and the Near East and Latin America and the Caribbean include: Agricultural Research in Bangladesh ($3 million), Pakistan ($5 million), El Salvador ($5 million), and Honduras ($4.8 million); Irrigation Management and Training in India ($3 million) and Pakistan ($5 million); and forestry and watershed management in India ($5.6 million), Costa Rica ($5 million), and Haiti ($5.3 million).

## Population Planning

A.I.D. is requesting $190,940,000 for population assistance in FY 1989, not including population activities funded under the Development Fund for Africa. This compares to $197,940,000 appropriated for the population account in FY 1988.

Initial estimates for FY 1989 indicate that 80% of the population budget will be directed to family planning services. Eight percent is planned for data collection and policy analysis, six percent for operational and biomedical research and six percent for specific information and training initiatives.

In FY 1989, A.I.D.'s program will assist in improving the management and cost-effectiveness of public and PVO programs. We will continue to pursue private sector approaches to voluntary family planning, including assisting firms to add family planning to the health services offered to their employees. Natural Family Planning, the transfer of policy analysis technology to population and development planners, and the use of mass media channels to communicate messages about responsible parenthood remain an important part of the portfolio. As in the past, no A.I.D. funds will be provided to foreign non-governmental organizations that promote or perform abortions with funds from any source or to organizations that support or participate in the management of programs of coercive abortion or involuntary sterilization.

## Health

For FY 1989, A.I.D. requests a total of $210 million in funding for health-related activities under three separate accounts. Of this amount $114,000,000 is in the Health account. This amount is exclusive of health activities funded under the Development Fund for Africa. This compares to $119,000,000 appropriated in FY 1988.

In FY 1989, A.I.D. will support major health projects which contain child survival components in Bangladesh, Yemen, Nepal, and Honduras. The project in Honduras will also fund rural water and sanitation activities. In the Dominican Republic, Health funds will be used for a private sector health care project to create a private sector delivery system that provides basic health services, including child survival interventions.

Centrally-funded health projects include the Water and Sanitation for Health Project and the Vector Biology and Control Project. Health funds will support research on development and field testing of a malaria vaccine; on diarrheal disease; on tropical diseases, including onchocerciasis; on aging in LDCs; and operations research to improve management and cost effectiveness of child survival and other health programs.

Child Survival Fund

A.I.D. is requesting $66,000,000 for the Child Survival Fund in FY 1989, the same level as appropriated in FY 1988. The Child Survival Fund is used for oral rehydration therapy (ORT), immunization, birth spacing and focused child nutrition activities including breastfeeding. In addition, other interventions that contribute substantially to child survival in some countries, such as treatment of malaria and acute respiratory infection in young children, are supported with Child Survival funds.

In FY 1989, A.I.D. will support a competitive grants program for U.S.-based PVOs to undertake child survival projects in child survival emphasis countries. Additional funds will support the Rotary International PolioPlus immunization campaign. We will continue to support the Latin America and Caribbean regional effort to strengthen immunization programs, in cooperation with other donors (PAHO, UNICEF, Rotary, and the Inter-American Development Bank).

Several major centrally-funded activities will support child survival efforts worldwide. The Technology for Primary Health Care Project will provide technical assistance and logistical and financial support for ORT and immunization programs, as well as assistance in health care financing. Child Survival funds will support major bilateral projects in several child survival emphasis countries in FY 1989, including Pakistan, India, Bangladesh, Peru and Honduras.

AIDS Prevention and Control

For AIDS Prevention and Control $30 million is requested. This funding will support the WHO Global Program for AIDS ($15 million); funding for LAC ($3 million); and centrally funded

AIDS projects at $12 million. Funds will be used for the global AIDs technical support project to provide short and long-term technical assistance, training, operations research and commodities and equipment to countries on request in Africa, Asia and the Near East and Latin America and the Caribbean. Continuing database and modeling activities and condoms for AIDS prevention will also be supported. Direct bilateral and regional AIDS prevention and control activities will continue to be supported under the Development Fund for Africa.

Education and Human Resources Development

A.I.D. is requesting $129,541,000 for FY 1989 Education and Human Resources programs, exclusive of those funded under the Development Fund for Africa. This compares to $117,000,000 appropriated for this account in FY 1988.

About 40% of the request will support training for administrators, managers, scientists and technicians. About 30% supports elementary, secondary and adult education, 9% vocational/technical training and 7% labor programs. The balance supports planning and research, PVO programs, Women-in-Development, and other human resources development activities.

About 53% of the FY 1989 request will support programs in Latin America and the Caribbean, where there is a major emphasis on participant training as well as attention to strengthening basic schooling and skills training systems. Approximately 39% will support participant training, education, labor and PVO activities in Asia and the Near East. The remainder of the request, about 8%, will provide central bureau support for research and development, evaluations, administration of participant training, Women-In-Development and PVO programs.

Private Sector, Environment and Energy

A.I.D. is requesting $135,957,000 in FY 1989 for the 106 account, not including $8,662,000 for the Office of the Science Advisor. This compares to $129,371,000 appropriated in FY 1988. Neither year includes programs funded under the Development Fund for Africa.

The 106 Account provides assistance to stimulate sustained economic growth by supporting the development of market-oriented economies and by mobilizing developing country human and capital resources. This account provides funding for activities designed to encourage the adoption of sound economic policies which stimulate private enterprise, mobilize domestic and foreign capital, and encourage the privatization of production and service activities which can most efficiently be performed outside of the public sector. It also assists countries in meeting their long-term energy needs and in addressing environmental problems in urban areas. The flexibility of 106 account funds has been invaluable to A.I.D.'s privatization initiative. The presence of an economic and political climate that encourages individual productivity, human rights and the management of natural resources is essential to long term sustainable economic growth.

Unlike the other more narrowly focused functional accounts which are designed to address specific development problems related to population, health, agriculture or education, the 106 account supports programs that provide the foundation required to sustain and expand the output of goods and services in all economic and social sectors. Thus, activities supported by the 106 Account complement the more targeted assistance provided by the other functional accounts.

Specifically, categories of activities funded under this account include (1) support for private enterprise development and efforts to reform government policies and institutions; (2) research and technical assistance activities to alleviate energy constraints to development; (3) the promotion of human rights and democratic initiatives; (4) support for the activities of private and voluntary organizations and cooperatives; and (5) environmental activities in urban areas. These activities together with funding for policy reform efforts and the program development and evaluation activities of regional bureaus and field missions account for about 80% of funding in this account.

In addition to supporting economic and political policies the 106 account also assists countries to meet their long-term energy needs. Energy is essential for development. Developing countries can not expand their economies without adequate affordable and reliable supplies of energy services. Agriculture, industry, transportation, commercial activities and the provision of many social services depend on energy. Without increases in energy services, political and economic stability is threatened, private entrepreneurship lags, and the development engine slows dramatically.

The 106 account makes a small but significant contribution to A.I.D.'s environmental activities through support of urban environmental activities. Economic growth is inextricably linked with a country's natural resource base and environment. Protecting the environment and managing natural resources assure a supply of raw materials and the maintenance of environmental systems that are necessary for sustainable development. Activities funded through 106 help developing countries improve regulation of hazardous chemicals and promote industrial health and safety.

Projects and activities which will receive funding from the 106 account in FY 1989 include an Industrial Production Technology project in the Dominican Republic to expand the production capabilities of small and medium-sized enterprises. The project will rely upon both the International Executive Service Corps and commercial banks. In El Salvador a Privatization project will provide technical assistance, training, and other support to the Government of El Salvador to help it in the privatization of government-owned enterprises. The Rural Electrification Project will continue to strengthen the institutional and technical base needed to reach the 85% of rural Central Americans who now lack access to electricity. The Energy Policy Development and Conservation Project will support pre-feasibility studies in economically viable systems, such as clean coal technology and energy efficiency and will improve the management of environmental impacts and risks associated with energy production. The Environmental Planning and Management Project strengthens the capabilities of developing country institutions to better manage and conserve their natural resources for sustainable development.

Economic Support Fund

For FY 1989, A.I.D. is requesting an appropriation of $3.281 billion for the Economic Support Fund (ESF). The request is up only slightly from the FY 1988 appropriated level of $3.201 billion. The increase is necessary in view of serious cuts we were forced to take in this account in FY 1988. In Central America, Jamaica and the Dominican Republic we have restored support we were forced to eliminate in FY 1988 which had funded economic reform, expansion of the private sector and continued participation in the Caribbean Basin Initiative. Portugal and Turkey were cut in FY 1988, and our FY 1989 budget includes minimum funds for these base rights countries. This request will increase funding for Andean countries to permit support for struggling economies and to support narcotics control efforts. Key elements of the FY 1989 ESF request include: continued efforts to achieve peace and stability in the Middle East through economic aid for Israel, Egypt, Jordan, the West Bank and Gaza and regional cooperation activities among Israel, Egypt and other neighboring countries; economic assistance to base rights and military access countries such as the Philippines, Turkey, Portugal and several in Africa; economic reform in the Dominican Republic and

Jamaica; assistance to Central American democracies for the achievement of economic stability and growth and strengthening their democratic institutions and respect of human rights.

## Operating Expenses

For FY 1989, A.I.D. requests $414,000,000 in new budget authority for its Operating Expense (OE) appropriation. This represents an increase of $8.0 million over the FY 1988 appropriation and a reduction of $12 million from the FY 1988 request. The FY 1989 request includes less than the amount necessary to cover inflation and the recent rapid increase in costs, especially in Africa, as a result of the declining value of the dollar. Currency devaluations have a major impact on our ability to cover the administrative costs of operating overseas. A.I.D. is looking for ways to realize savings through management improvements and changes in the way the Agency conducts its overseas program.

## The Challenge for the Future - An Agenda for the 1990's

Despite striking progress by some countries, economic growth is stagnating in many developing countries. In some countries the economic base is actually deteriorating, and individual incomes are declining, as a function of negative growth rates over the past five to ten years. Neither educated guesses nor straight-line projections of past trends really tell us what will happen in the future. Nevertheless, projections can suggest quite vividly what could occur if existing trends persist. A continuation of recent and current rates of economic growth in developing countries will result in an even greater gap between their levels of income and those of developed countries. One thing is certain: without growth, the quality of life in developing countries is not going to improve on a sustainable basis.

Targeted development assistance programs have helped to improve life expectancy in these situations, and to increase the likelihood that children will be protected against major diseases and have a minimal education. These gains are important, but in and of themselves, they are not enough and under stagnating or deteriorating economic conditions, they may not be sustainable.

Despite what we know about the common threads that tie together the economic growth and development experiences of diverse countries, and about what are the most important elements of an economic growth strategy, there is much that we do not know. The critical point is that each country is unique and the type and timing of the interventions to implement a growth strategy must be tailor made for each country situation.

The country-by-country approach to development entails not only some risk taking and experimentation, but also flexibility in where, when and what type of assistance we provide. Flexibility in our funding allows us to invest in the right opportunities at the right time and to target our assistance based on actual country performance.

The Development Fund for Africa reflects the kind of mechanism that is best suited to the implementation of such a strategy. It is designed to implement programs that integrate structural economic reforms with specific assistance projects in traditional development areas. With the Fund we are able to follow up on successful policy dialogue undertakings by supporting positive performance in a particular country.

## A Strategy for Advanced Developing Countries

Our investment must not stop with the very poor countries, although it will be different in those which have reached a certain level of development. As a result of 25 years of foreign assistance, there are now a number of advanced developing countries (ADCs) that no longer need the type of economic assistance they once received from A.I.D. Their relationship with the U.S. has not ended, but it has changed.

We are now developing a strategy that will be the basis for more productive bilateral relationships between the U.S. and a selected group of advanced developing countries, such as Brazil and Mexico. In addition we will focus on assistance strategies to help those countries approaching ADC status do so more quickly, while laying a strong institutional foundation for a mature ADC relationship. These new relationships would facilitate the eventual transition from traditional U.S. economic assistance programs to a different type of assistance designed to preserve and extend valuable bilateral institutional linkages. We have already initiated ADC programs in several Latin American countries, which strengthen the ties established earlier between U.S. and host country institutions while securing nongovernmental funding to support common efforts in the exchange of science and technology.

The evolution from a relationship dominated by an economic assistance program to one that is varied and complex is not easy, but now is the appropriate time to develop such a strategy. We want to consult Congress on this initiative at the appropriate time.

## Conclusion

Although the remaining challenges of economic development are sobering, foreign assistance has brought substantial accomplishments as well as a wealth of experience upon which to base investments in future progress.

We need to forge a new consensus on foreign assistance that will allow us to meet the particular needs of individual developing countries that will at the same time unite the Congress, the Executive Branch and the people of America behind foreign policy objectives and foreign aid. I look forward to working with you in this effort.

### PHILIPPINES LAND REFORM PROGRAM

Senator INOUYE. Thank you very much, Mr. Woods.

President Aquino's highly touted comprehensive land reform program has become bogged down in the Philippines Congress. Press reports suggest that the powerful land owners lobby succeeded in watering down key provisions of her program which intended to redistribute the holdings of members of the country's elite.

As you know, the Congress set aside $50 million in fiscal year 1988 in ESF to support President Aquino's land reform program.

Do you expect to make use of these funds in this fiscal year?

Ambassador WOODS. We hope to be able to, Mr. Chairman, and let me explain the situation.

The land reform program announced by Mrs. Aquino has four parts. The legal framework for three of those parts is already in place and the Government of the Philippines is already moving forward on these. The fourth part is now before the Filipino legislature.

Mrs. Aquino's government has recently developed and presented to us a plan for our support for those aspects of the agrarian land reform program that are already in place. As a matter of fact, I think I could say we are into more or less the second or third draft, and the proposal has become more specific. We anticipate that our Deputy Mission Director in the Philippines will be coming into Washington to have more discussions on that program in the next 2 or 3 weeks. If those discussions go well; if the program is focusing on production credits and infrastructure building for the portions of land reform which have already gone forward, then we probably will be able to obligate funds this year for that program. We have until the end of August of this year to make that decision. We will be consulting with the committee as we move forward.

Senator INOUYE. So it is not a total loss?

Ambassador WOODS. It is not a total loss. If the required conditions prior to obligation of funds are not adequately met, obviously, we will tell the committee well in advance.

### MINI-MARSHALL PLAN FOR THE PHILIPPINES

Senator INOUYE. Many of us in the Congress have been suggesting that the time is ripe for the United States to consider something akin to a Marshall Plan for the Philippines. I do not know if this is the right word to use, but we are very much concerned by the problems of the Philippines, and I think they are immense.

Do you feel that our interests would be well served by such an initiative, a broad front initiative?

Ambassador WOODS. Very much so. I think there is substantial agreement between the executive and legislative branches regarding support for the Philippines and support for Mrs. Aquino's government. We are working hard now to develop a program which reflects some of the suggestions that have been made. It is a complicated activity because we see the most beneficial type of program to be a multilateral program.

That requires that we have conversations with a number of other countries' development and political leaders, and internal discussions on this matter are now going forward.

We hope to have a comprehensive program to present to the Congress sometime in the not too distant future.

Senator INOUYE. Good.

Now, I presume that we will need some money to accomplish these objectives. In light of our budgetary problems, where will you be suggesting that these funds be located?

Ambassador WOODS. Indeed, you have identified one of the many complications involved in putting such a program together. I should comment in the following respect with regard to the Philippines. I think it is important to recognize that today the Philippines has an available but unspent pipeline from all donor funding of around $2.2 billion. Of these are funds, the United States accounts for about $250 million. These funds are available to the Aquino government once they have activities in place and can draw against them.

Their real needs, in terms of requirements for funds in the future, appear to be for the period 1990 and beyond, depending on how quickly they are able to use the $2 billion that is available.

I might add that in looking at a multilateral effort, we might be also dealing with other nations' budget planning cycles, which could mean starting such a program in the 1990 timeframe.

This isn't a matter which has been decided yet; we are still exploring the possibilities. As I said, there is a lot of money in the pipeline which would suggest that there is not a near term cash flow problem for the Philippine government.

## EFFECTIVENESS OF A.I.D. PROGRAM IN PHILIPPINES

Senator INOUYE. You may not wish to respond to this, but are you satisfies with what your agency is doing there?

The situation seems to be ever changing. When we first involved ourselves in Mrs. Aquino's crusade in 1986, it was chaotic, but since that time the economic problems have, I think, compounded itself geometrically. There is not complete support of the military. The insurgency, the communist insurgency still continues. And I am just wondering if the effort that we began 2 years ago is adequate.

Ambassador WOODS. Let me respond in this way.

First of all, I will say I am never satisfied with what we are doing anyplace. I always think that there is room for improvement. But the case of the Philippines is a particularly difficult one. I think we have demonstrated in the executive branch and in the appropriations provided by Congress, our political commitment to that government. In fact, since Mrs. Aquino came to power in February 1986, we have obligated fully one-third of all U.S. foreign assistance that has ever gone to the Philippines in the 30-year history of our program. I think that says a lot about our commitment to that government.

Mrs. Aquino came to power in what I think is a very difficult situation for her, and for us, and this is one of the reasons why such a large pipeline exists. She had no transition time. There was no period between the election and taking office in which to organize.

The people that are providing the political leadership in Mrs. Aquino's government, almost by definition, given the way she came to power, had not had recent previous government experience. So there was a necessary acclimation period.

Those problems are beginning to be worked out. It is in many respects a miracle that over this brief period the Philippines has experienced economic growth, and they have in each year of Mrs. Aquino's government. It is anticipated they will continue to do so this year.

There are a lot of policy problems to be worked out. Mrs. Aquino's general policy and general philosophy about economics is certainly the kind of philosophy that will lead to economic growth. There are still a lot of regulations and inhibitions that are in place that are somewhat counter to her overall philosophies, which are going to need to be worked out over time. Economic policy change is going to be a particularly important part of that equation if the Philippines is to move forward.

There is one other issue in the Philippines for which Mrs. Aquino bears no particular responsibility and she and I have discussed the problem at some length. It is a problem we do not like to discuss—the problem of corruption. Mrs. Aquino is very much concerned about corruption. There is no indication that she or her closest associates are associated with it, but it is a long-term problem in that part of the world and in that nation in particular. It is going to be and is an inhibitor to development to the extent that it continues. We are looking for ways in which to help her in that respect, as well.

### EXPORT AND TRADE OF PHILIPPINES GOODS

Senator INOUYE. Mrs. Aquino has suggested that the United States should provide an additional $1 billion between now and 1991 when the lease for the bases expires. Now, this subcommittee is not involved in the negotiations for the base rights, but I think it would be appropriate for the subcommittee to once again reiterate that we do not view foreign assistance as rent for the use of these bases, and furthermore, in any case, if one looked at the Budget Committee report and also the problems of the Appropriations Committee, we have tried, but we cannot locate any $1 billion of additional money anywhere in the many pages that we have to study.

Are there any other schemes such as export enhancement, free trade for Philippine goods which might be offered in lieu of such aid?

Ambassador WOODS. We certainly agree with you that the use of foreign assistance for rent is inappropriate. We are of one mind in that regard.

We are also of one mind as to what the budgetary restraints look like for fiscal year 1989 and beyond.

We are trying to be creative, and some of your suggestions may offer some possibilities. Negotiations are ongoing, and I hope that representatives of the Philippine government have heard both you and I as we sit here today and understand that our ability to fulfill unusually high expectations is very limited.

Senator INOUYE. Mr. Administrator, may I call a short recess? I have to go upstairs to vote.

Ambassador WOODS. All right.

Senator INOUYE. I will be right back.

[A brief recess was taken.]

Senator INOUYE. We are pleased to have with us Senator D'Amato, and I gather that he has a statement he would like to present at this time.

### PREPARED STATEMENT

Senator D'AMATO. Yes, Mr. Chairman. Inasmuch as we have an Appropriations Subcommittee on Transportation also which is meeting at the same time, I would ask that I be permitted to submit my statement for the record, and that it be included in its entirety, and I ask also that there are three questions that I might be permitted to submit for the record, and that they be asked.

Senator INOUYE. It will be so ordered.

Senator D'AMATO. Thank you, Mr. Chairman.

[The statement follows:]

## PREPARED STATEMENT OF HON. ALFONSE D'AMATO

### U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome Alan Woods back to this committee, to discuss the Economic Support Fund and bilateral assistance programs.

The administration has requested $5.48 billion for bilateral programs in fiscal year 1989, a $20 million increase over this fiscal year's figure of $5.46 billion.

I want to express my concern over the fiscal year 1989 request of only $3 million for Cyprus. For the first time in recent months there is growing hope on the part of citizens of Cyprus that progress is now possible on the resolution of the Cyprus dispute. The election of President Vassiliou in Cyprus and the recent meeting between Greek Prime Minister Papandreou and Turkish Prime Minister Ozal in Switzerland suggest an atmosphere can develop for achieving peace on this troubled island nation. I believe that this administration sends the wrong signal to the new president of Cyprus, and to Cypriots who long for peace, by attempting to reduce economic assistance to Cyprus.

I also believe that the United States should substantially increase its humanitarian assistance program to the freedom fighters in Afghanistan. The administration has requested $45 million for fiscal year 1989, the same amount Congress appropriated for the current fiscal year. Soon, the Afghanistan refugees are expected to return to a nation which has been destroyed by more than 8 years of war inflicted upon them by the Soviet Union. $45 million will not nearly be enough to help these people out.

We must also consider that the Mujahadeen did not agree to the Geneve Accords on the Soviet troop pull out. They have been very critical of U.S. support for these accords. The United States has developed tremendous good-will with the freedom fighters over the last several years. A substantially increased humanitarian assistance program will reaffirm our support for their cause.

While the Agency for International Development is becoming increasingly crucial to many areas of the world, the resources from which A.I.D. can operate are becoming increasingly scarce. I look forward to working with you during the difficult budget process this fiscal year.

Thank you, Mr. Chairman.

### ECONOMIC REFORM IN THE PHILIPPINES

Senator INOUYE. Many have suggested that because of the problems of the Philippines, President Aquino, notwithstanding her popularity and strength and determination, may not be able to sustain the economic reform there, and therefore suggesting to us that we should be cautious.

What are your thoughts on this?

Ambassador WOODS. First, I will make a general statement, not one that just relates to the Philippines. It is not an unusual thing, in fact, quite the contrary, it is the most usual thing in the world for economics and politics to interact in ways that are uncomfortable for politicians. It may be one of the iron-clad laws of the world, I am beginning to think, and it is important to be cautious. But I think it is also important to be assertive in assisting Philippine leadership in this area.

The reality is, of course, that if economic growth does not occur, if adequate economic policies are not adopted, over time democratic government will have a tendency to weaken because people will become disillusioned with it. It is important to have a long-term commitment to economic reform in order to keep things moving in the right direction.

Senator INOUYE. If we can in any way send a message to Mrs. Aquino, we would like to tell her that we are with her.

### ALLEGATIONS OF MISUSE OF A.I.D. FUNDS IN EL SALVADOR

Now, if I may, I would like to turn to El Salvador.

In March, a prominent candidate of President Duarte's ruling Christian Democratic Party was informed by American and Salvadoran officials that he was under investigation for alleged misuse of approximately $2 million of American aid destined to help the war-torn area of that country.

Investigators have charged Mr. Luis Miranda, the former Director of the National Commission for the Restoration of Areas [CONARA] and several other Salvadoran officials with involvement in this scheme.

What has the investigation uncovered so far?

Ambassador WOODS. Let me say that the funds that are addressed by that particular investigation are not appropriated dollars but are local currencies that were generated by other activities.

If I may, I would like to ask Assistant Administrator Ink to go into the details of that particular circumstance.

Senator INOUYE. Fine.

Mr. INK. Mr. Chairman, the investigation of CONARA is under way. Our mission had been alerted to allegations that appeared to be serious, and they requested our Inspector General to conduct an audit. That *audit has confirmed that* there are problems both with the internal financial system and with the forging of checks.

The investigation has not been completed, but certainly the leadership involved in mismanagement has been replaced. The mission has arranged for each of the transactions of that organization to be reviewed on an ongoing basis by one of our big eight accounting firms, until we and the Inspector General are satisfied that adequate controls are in place.

In addition, this situation is also being investigated by the Salvadoran Attorney General and the police. Two of the officials have been arrested. The National Assembly in El Salvador has established a bipartisan commission to investigate this, and also to see if there might be similar problems elsewhere.

I would like to say that President Duarte has been very responsive as information has been developed and passed on to him, and we are very pleased with this.

I think that response has been quite good.

What we would like to see and what we are trying to do, however, is provide some assistance to strengthen their overall institutional capacity to deal with adequate financial management and better auditing. Even if this particular problem comes under control, we have a broader agenda, and we are hoping that the El Salvadoran government will have a broader agenda, in terms of stronger institutional precautions against this kind of problem.

Senator INOUYE. Would you say that President Duarte's response to this problem was fast and effective?

Mr. INK. I would say that as soon as specific facts, details, were in his hands, the answer would be yes.

Again, I would like to see that government as well as many other governments take more actions in terms of prevention of these kinds of problems developing.

Senator INOUYE. Have we changed or changed our process in passing on funds through the government, or are we still following the same process?

Mr. INK. Mr. Chairman, some of the mechanics have not substantially changed, but in terms of the kinds of the auditing, the extent of auditing, in terms of the checking on the capability of organizations before they receive the funds in the first place, and in terms of training individuals in these organizations for accounting, for better financial management, this was under way before this occurred and has been expedited as a result of this case.

Overall there is a great deal of change, most of it in terms of trying to strengthen the financial management capacity of these institutions.

I would have to say, Mr. Chairman, that we do not have the capacity to do this as rapidly as we would like on a governmentwide basis.

Senator INOUYE. Has the investigation suggested that U.S. citizens or government officials or agents of our government are involved in this scheme?

Mr. INK. Not unless they found something in the last few days that I am not aware of. As of a few days ago, that was not the case. However, it appears that one of the foreign national members of the mission may have been involved; this is being investigated.

Senator INOUYE. According to the press, corruption involving the misuse of U.S. aid is rather widespread in the government of El Salvador and may involve other areas of U.S. assistance programs in that country.

Is there any evidence to substantiate that charge that we find rather rampant in the press?

Mr. INK. We do not have evidence that it is rampant. On the other hand, having had this case and another problem that has recently come to our attention, we are not comfortable and feel we do not have a basis for categorically saying that it is not widespread. This is one of the reasons, by the way, that the audit investigation by the Inspector General's office, which has been very helpful and very cooperative, has been extended in an expedited way.

We have this year made available to all our country programs considerably more funds for institution building, especially for the strengthening of accounting and auditing capacities, but we are putting a special emphasis on El Salvador in view of this incident. Furthermore, we are beginning next week a management assessment of the mission. As a matter of fact, Ambassador Woods attaches such importance to this that he has asked me to head up that assessment, which will be completed around early June.

Senator INOUYE. Senator Lautenberg?

### INTERNATIONAL FUND FOR IRELAND

Senator LAUTENBERG. Yes, thank you very much, Mr. Chairman.

I will not take much time.

Good morning.

I want to take an opportunity to pose some questions about the International Fund for Ireland.

I recently visited Northern Ireland to personally assess the situation in that country. While there I heard serious concern about the fund, and I was told that some of the money for the fund is not going to the areas of greatest need, which is part of the mission of the fund. I was told that the application review process was sometimes unfair. And I was told the money is going to institutions that actually discriminated.

While I believe that the fund does hold the promise of fostering growth and development and reconciliation in Northern Ireland, a cause that I salute, I am concerned about the criticism that I heard while visiting that country.

Since returning from Northern Ireland, I have met with the British Ambassador, Mr. Acland, and the U.S. observer to the fund, Bill Fine. Yesterday I had occasion to meet with the fund Chairman, Mr. Charles Brett. I asked all of these individuals to address the concerns that I heard about the fund.

I am going to submit some questions to you in writing. The area that I want addressed is whether or not the funds have gone to the areas which have suffered the most severely from the instability. That is the fund's requirement. I would like to ask about the application review process. I have heard that some of the enterprises in West Belfast which had applied for money from the fund were dismissed without review from a member of the board.

I would like to know how much of the funding has gone directly to West Belfast. I have questions about Queens University, and whether or not they do in fact practice discrimination against the Catholic minority. I am concerned about the job creation program and whether or not these funds are being used effectively,

I have questions about A.I.D.'s plans to prepare a certification.

I met with one of your people on that, and I am told that among other issues, A.I.D. is waiting for GAO to complete a survey of the fund.

These are the areas of my questions, Mr. Chairman. I submit them for the record and for response from the agency, and I appreciate the opportunity.

Senator INOUYE. It will be so done.

Senator LAUTENBERG. Thank you.

Senator INOUYE. Senators, let me say that we have another vote.

May we go up and come back again?

Ambassador WOODS. That would be fine.

Senator HARKIN. I have already voted, Mr. Chairman.

Senator INOUYE. Why do you not stay, then, and I will be back in a few minutes.

### DISBURSEMENT RATES OF COSTA RICA ESF FUNDS

Senator HARKIN. Mr. Administrator, in response to reported manipulation of Costa Rica's aid funding, the Senate Foreign Operations Subcommittee inserted into its report for the 1988 Foreign Aid Appropriations bill language expressing its concern "that the obligation and disbursement of economic support funds to Costa Rica in fiscal 1987 was delayed for noneconomic reasons."

The committee report advised that disbursement rates of ESF funds in 1988 should "be not less than similar rates for other Central American countries receiving such assistance."

Furthermore, the committee required that the Secretary of State file a report by June 30 of this year, a report "detailing the level of ESF obligation and disbursement to Costa Rica, El Salvador, Guatemala and Honduras."

Mr. Ambassador, are you aware of this requirement?

Ambassador WOODS. I am, indeed.

Senator HARKIN. Is the Department prepared to comply with the committee's requirement?

Ambassador WOODS. I must assume so, yes.

Senator HARKIN. Can you provide my office information on the status of A.I.D.'s negotiation with Costa Rica on the obligation of 1988 ESF and development assistance?

Ambassador WOODS. Certainly.

Senator HARKIN. If you could do that, thank you.

[The information follows:]

### STATUS OF DA AND ESF PROGRAMS IN COSTA RICA

The USAID/Costa Rica Mission's fiscal year 1988 development assistance budget is $11.6 million with projects scheduled for Family Planning ($3.5 million), Northern Zone Consolidation ($5 million), Natural Resources ($0.2 million), American Institute for Free Labor Development [AIFLD] ($1 million), Non-Traditional Export Tech Support ($1.5 million) and Program Development and Support [PD&S] ($0.4 million).

We expect that funds for the Family Planning, AIFLD and Non-Traditional Export Technical Support projects will be obligated late in the third quarter of fiscal year 1988: for the Nothern Zone Consolidation project early in the fourth quarter; and for Natural Resources late in the fourth quarter. This schedule is consistent with the development of the project designs and final negotiations with the implementing institutions for the respective projects. Program development and support funds are being obligated as required throughout the fiscal year.

The A.I.D. Mission initiated negotiations for the $85 million fiscal year 1988 Economic Support Fund [ESF] balance-of-payments program in late October 1987. Negotiations continued throughout the first quarter of calendar year 1988. Principal issues covered in the policy dialog and negotiations with the government's 1988 fiscal and monetary economic plan, liberalization of the financial sector, export and investment promotion programs, housing, public sector efficiency, and joint programming of host country-owned local currency generated by the ESF program.

The A.I.D. Mission presented to A.I.D./Washington the program assistance approval document [PAAD] in May. The PAAD was reviewed by A.I.D./Washington and approved on May 12. The Mission is conducting final negotiations based on guidance received at the PAAD review. We hope that an agreement will be signed in June and that the first disbursement of $45 million will be made shortly thereafter.

In addition to the balance-of-payments program, we expect the Mission will obligate $5 million in ESF for the Central American Peace Scholarship [CAPS] program and a new Administration of Justice project. We expect the CAPS funds (an additional increment of $3.5 million) will be obligated in June and the Administration of Justice project in August.

### ESF ASSISTANCE LEVELS TO COSTA RICA

Senator HARKIN. I am concerned about this administration's policy toward Costa Rica and how that position translates in its aid request for the country.

I am aware of the A.I.D. Inspector General's report. However, it appears to me that in the past 2 years, since President Arias took office, the administration has used funding as a means to punish President Arias for his independent foreign policy in Central America. Testifying before a House Foreign Affairs Subcommittee last year, Francis McNeil, a former U.S. Ambassador to Costa Rica, said "In every economic issue, debt, A.I.D. disbursements, commodities and trade disputes, the United States has been unresponsive to Costa Rica. It is impossible to avoid the suspicion that Costa Rica's less favored nation treatment is a form of revenge for having the temerity to disagree with us about the Contras." that is a quote from Francis McNeil. That is not my quote.

There appears ample proof of McNeil's statement. None of the $87.7 million in ESF approved by Congress in the fiscal year 1987 continuing resolution was disbursed until August of last year, just a month before the fiscal year ended. Last year the administration request for fiscal year 1988 was less than its request for fiscal year 1986.

Costa Rica was the only country of all four democracies in Central America to have its 1988 request less than its 1986 request, and this is a country which is a model of democracy and stability for Central America.

Now I find that for fiscal year 1989 Costa Rica is the only Central American country receiving U.S. aid to have its economic support fund level reduced, for 1989. I find that just amazing.

Let me read you the levels. El Salvador, 1988 earmarked level of $185 million; 1989 request, $185 million. Guatemala, 1988 earmarked, $80 million; 1989 request, $80 million. Honduras, 1988 earmarked, $85 million; 1989 request, $87 million. Costa Rica, 1988 earmarked, $90 million; 1989 request, $70 million.

Mr. Woods, why are you asking less for Costa Rica for fiscal year 1989 than what Congress earmarked last year?

Ambassador WOODS. The circumstance in Costa Rica is, for us, driven less by political considerations than by economic ones. Costa Rica at this moment has probably the most stable and fastest growing economy of the four Central American countries which you named. Part of the reason for that, quite frankly, Senator, is the assets which you have mentioned in discussing Costa Rica. They do not have a large military budget—in fact, they have no military. Higher portions of their budget, therefore, are available for their economic development activities. The history of democracy in that country makes it a much more attractive place for investment, both domestically and internationally, and other donors from across the world have identified that stability and opportunity. They, too, are contributing to Costa Rica at rates that they might not be contributing to other countries in Central America.

I believe that our decisions with regard to levels in Costa Rica are not politically motivated. They are a result of the economic circumstances we find there, which are in fact better than those of the other countries in the Central American region.

Senator HARKIN. Now, if we use that as a criterion for aid, should we look at all the rest of the countries in the world? If they are doing better, we just cut them down a little bit? Is that our new criterion?

Ambassador WOODS. Well, I hesitate to say, we do tend to do that.

Senator HARKIN. Not in my experience.

Ambassador WOODS. Not in all circumstances, and the criteria for aid varies from one country to another, but I do not feel that the reason we have reduced the request below the earmark for fiscal year 1988 is politically motivated.

Senator HARKIN. Could you supply me or this subcommittee with the information of how you came up with $20 million in cuts? Why was it not $10 million? Why was it not $15 million, $10 million, $5 million?

Why was it $20 million? That is a big cut—a little over 20 something percent cut.

Why was it cut $20 million?

Mr. INK. As Ambassador Woods has indicated, there is a view which I share that as countries do stabilize and have significant economic growth and become well established democracies, they should be in a position to stand on their own to a greater degree. We do not regard aid as engendering a permanent dependence.

The foreign assistance for Costa Rica from other donors appears to be very substantial now. Japan has just made a very substantial commitment. We do not have the levels of assistance available such as are provided by the World Bank and Japan in all the other Central American countries. We must operate within essentially static or slightly decreasing budget levels.

Senator HARKIN. I can only assume that you have consulted with the Costa Rican government about their aid needs.

Mr. INK. Yes, sir, the mission did.

I do not think we have a single country in which the government would not like to receive more funds from us than we provide.

Senator HARKIN. But that is not the point. The point is you kept the other countries at last year's levels, but you cut Costa Rica. They were not asking for more. As I understand it, they would be happy if they left it at the $90 million level. You see, you are just off the mark on that.

As I understand it, and in my conversations with President Arias, they have demonstrated a real need for that money, and a 20 percent cut is a considerable cut in the economic support for Costa Rica.

Mr. INK. I think every country feels they have a demonstrated need beyond what we are providing, but in no other country in Central America do we have the level of funding that will be flowing in from other donors in Costa Rica.

I think that is to the credit of Costa Rica. It is to their credit because of the socio-economic-political stability which they have, and the economic measures which they have taken over a period of years.

Senator HARKIN. Well, I find that a curious position to take. A country that has a viable democracy, that is stable, one that we want to support, we start cutting because it is getting support from other countries.

I wonder if other countries may not take the lead from us: the United States cannot keep up its support, so they should not either.

It is obvious that Central America is an area of the world in which we have a great deal of interest, and there is a lot at stake, and not other countries, whether European or whoever they might be.

But it just sticks out like a sore thumb, cutting the money for Costa Rica at this time. If anything, I think we ought to be making a model of Costa Rica, show other countries that if they want to get more money, more economic help, more development money, they ought to emulate what Costa Rica is doing. The message we are sending now is if you do what Costa Rica is doing, we are going to cut you.

That seems to be the wrong message to send.

Now, I favor aid being strictly economic and development assistance, but we fool only ourselves if we say that that is the only reason that aid is ever given.

Mr. INK. We have urged other donors to put money into Costa Rica because we think there is a strong case to be made for their helping Costa Rica. Japan is one of those. We also have worked with the World Bank. We look upon the total amount of assistance to these countries as the most important factor, and the total amount of assistance to Costa Rica will not be going down.

### CONTRA HUMANITARIAN AID

Senator HARKIN. If I might then move ahead to the peace initiative package, to Honduras has any of the $17.7 million in humanitarian aid recently approved by Congress gone to the Contras in Honduras?

Ambassador WOODS. Yes, not in the form of funds, but in the form of food.

Senator HARKIN. How much? Two shipments?

Ambassador WOODS. The total numbers that I have would be about 125 tons of food.

Senator HARKIN. 125 tons.

Ambassador WOODS. Metric tons, to be precise.

Senator HARKIN. Where did it go?

Ambassador WOODS. Into an area where it could be trucked. We are trying to deliver more as we speak. I do not have the tonnage on that.

Senator HARKIN. Did it go to Yamales, Honduras?

Ambassador WOODS. Yes, Yamales, that is where we have the capacity to truck.

Senator HARKIN. Are any more deliveries planned?

Ambassador WOODS. We are planning deliveries based upon need. As I said, there are deliveries that we are trying to make today, and I have not received information on future planned delivery dates.

Senator HARKIN. Are there any deliveries planned to Bocay?

Ambassador WOODS. Yes, there are, and those are the ones we are trying to get through today.

Senator HARKIN. I asked you if they were planned, and you said that as the need arises. I asked if they were going to Bocay, and you said yes, that is planned.

Ambassador WOODS. I said there were deliveries being worked on today.

Senator HARKIN. Today?

Ambassador WOODS. Today.

Senator HARKIN. To Bocay.

Ambassador WOODS. Yes.

Senator HARKIN. How are you going to get it to Bocay?

Ambassador WOODS. That is an area where we must drop food by air.

Senator HARKIN. Who is going to fly the planes?

Ambassador WOODS. A commercial carrier in Honduras.

Senator HARKIN. United States or Honduran?

Ambassador WOODS. Honduran.

Senator HARKIN. Have those who are carrying this food, this contract carrier, ever worked for the Contras before?

Ambassador WOODS. This particular contract carrier has worked for just about everybody in Honduras, and that would include the Contras, as I understand it.

Senator HARKIN. So they have provided drops before to the Contras?

Ambassador WOODS. Right, but it is not the Contra aircraft. It is a private aircraft.

Senator HARKIN. They have provided drops before to the Contras. Have they flown inside of Nicaragua before?

Ambassador WOODS. I don't believe so.

Senator HARKIN. But you don't know?

Ambassador WOODS. I cannot say that unequivocally. I don't believe so, but I don't know. I could provide you that information for the record.

Senator HARKIN. Well, I would like to know if they have flown for the Contras before.

[The information follows:]

### HONDURAN AIRCRAFT COMPANY CIRCLE G

When the Honduran Government gave A.I.D. permission to carry out the humanitarian assistance program in Honduras in the absence of agreement between the resistance and the Nicaraguan Government for deliveries inside Nicaragua, Honduras asked that we use Honduran companies for activities undertaken in Honduras. There are only three or four Honduran companies with aircraft for making airdrops.

Circle G is a private, one-airplane Honduran company headed by Rene Gonzalez. Gonzalez is the sole pilot. We understand he has flown commercial cargo for the resistance in the past but of the Honduran companies, he has flown fewer, least recent flights. Hence, we believe Circle G had the least prior association and could be regarded as most neutral when directly contracted by A.I.D. for this purpose. We feel confident that as an A.I.D. contractor rigorously scrutinized by A.I.D. inspectors, the General Accounting Office and the Catholic Church, we are assured of the neutrality that A.I.D. and Congress seeks.

### INSPECTION OF AIRCRAFT

Senator HARKIN. I also would like to know who is inspecting the aircraft before they take off. Where are they picking up the food?

Ambassador WOODS. At the commercial airport in Tegucigalpa. The aircraft is being inspected before it takes off. The food loads are being inspected by the Honduran Catholic Church and also by our accountants.

Senator HARKIN. Will any of the food be dropped inside of Nicaraguan air space?

Ambassador WOODS. None.

Senator HARKIN. You can assure us of that?

Ambassador WOODS. Yes.

## VERIFICATION COMMISSION FOR CONTRA AID

Senator HARKIN. Was the International Verification Commission headed by Cardinal Obando y Bravo and the Secretary General of the OAS, Mr. Suares, consulted before these deliveries were made to Yamales and the ones planned to Bocay?

Ambassador WOODS. They were aware of the deliveries. I would not say a consultation, per se, took place.

Senator HARKIN. OK. You made them aware of it, or did they just find out on their own through other sources?

Ambassador WOODS. I know the OAS was made aware of it; because we met with the Secretary General. The Cardinal in Managua was also aware of our food deliveries. I know we made them both aware of it. Whether they knew before the deliveries or not, I am less certain.

Senator HARKIN. Can you tell us what was their opinion of these deliveries, in the case of the OAS, for example?

Ambassador WOODS. The OAS Secretary General has said that he does not believe these deliveries are appropriate. The Cardinal has not indicated a view.

Senator HARKIN. So the OAS did dissent?

Ambassador WOODS. Yes.

Senator HARKIN. What was the reason the OAS dissented?

Ambassador WOODS. The Secretary General believes that it is not consistent with one of the previous agreements.

## SAPOA AGREEMENT

Senator HARKIN. Sapoa?

Ambassador WOODS. Not just Sapoa. I have problems with Spanish since I do not speak it.

Senator HARKIN. Well, it was my understanding that the OAS said these deliveries were outside the bounds of the Sapoa agreement.

Are you saying that is not so? It is my understanding, and I am just trying to get this correct.

Ambassador WOODS. I understand he has sent a letter to the Secretary of State, which I have not seen, so I cannot comment specifically. I thought it was the Esquipulas II agreement that he said it was outside the bounds of.

Senator HARKIN. Well, let me read you the letter. The Secretary General reiterates the opinion, as witness the Sapoa agreement, expressed to Mr. Ted Morse, Director of the Task Force of the Humanitarian Assistance on April 14 that the Verification Commission provided for under the Sapoa agreement is authorized to operate only within Nicaragua, and that the neutral organization to be used as a channel for deliveries are to be chosen by the parties, that is, the constitutional Government of Nicaragua and the Democratic Resistance of Nicaragua.

Ambassador WOODS. With regard to deliveries inside Nicaragua, we would not disagree. All of the deliveries which we have made up to this point have been inside Honduras.

Senator HARKIN. Let me read you section 2 of the resolution, House Joint Resolution 523, and I will quote for you.

> The assistance and support for which this joint resolution provides shall be administered consistent with the Sapoa agreement. No authority contained in this joint resolution is intended to be exercised in any manner that might be determined by the Verification Commission established by the Sapoa agreement to be inconsistent with that agreement or any subsequent agreement between the Government of Nicaragua and the Nicaraguan Democratic Resistance.

And again, as I understand it, these deliveries were not consistent with the Verification Commission.

Ambassador WOODS. Our legal counsel is not in agreement with that. This endeavor was outside the parameters of the Sapoa agreement because the deliveries are taking place inside Honduras, not inside Nicaragua.

Senator HARKIN. As I understand it, the resolution provides the aid, $17.7 million, does it not?

Ambassador WOODS. That is correct.

Senator HARKIN. The resolution states quite unequivocally that the aid shall be administered in accordance with the Sapoa accords as determined by the Verification Commission. I just read that. So therefore, if you made shipments to Honduras not in accordance with this, then I have to ask you, Mr. Woods, under what authority did you operate? Under what authority did you make those shipments?

Ambassador WOODS. Senator, before any of those shipments were made, Mr. Morse, who is head of the Task Force, had extensive consultations with the staffs of the congressional committees, which have been identified as our points of contact on these matters, and no objection was made to these earlier shipments.

Senator HARKIN. Would you please identify for this subcommittee those congressional staff persons?

Ambassador WOODS. I will do so.

Senator HARKIN. Do you know them right now?

Ambassador WOODS. I do not know their names off the top of my head.

Senator HARKIN. Are you telling me that congressional staff people are going around the stated law?

Ambassador WOODS. My understanding is that there is a belief that our interpretation of the law is consistent with our actions to supply food inside Honduras.

Senator HARKIN. But you just stated for me, and it says—I do not know how much clearer the English language can be—no authority contained in this joint resolution is intended to be exercised in any manner that might be determined by the Verification Commission established by the Sapoa agreement to be inconsistent with that agreement or any subsequent agreement between the Government of Nicaragua and the Nicaraguan Democratic Resistance.

I will tell you, for this legislator—and I have only been here for 14 years, so I am sort of a newcomer around here—but it seems to me that we try to write this language in as precise a manner as we can. I do not think anything was more precise than what was in house Joint Resolution 523 for which I voted, and had I thought that there were these loopholes that you now talk about, I might have had a different approach to that agreement. But I do not know under what authority you operated. You tell me you operated because some congressional staff told you you could, is that what you are telling me?

Ambassador Woods. And based on the advice of our counsel and the State Department's counsel. I might add, the Verification Commission has not indicated that this is inconsistent. Only one party of the Verification Commission has so indicated. There are two parties.

Senator Harkin. The OAS?

Ambassador Woods. The OAS.

Senator Harkin. The OAS?

Ambassador Woods. The OAS Secretary General.

Senator Harkin. That is right, and you are saying that that does not matter, just because one of them does not?

Mr. Chairman, I hate to belabor the subcommittee with this point, but I think it is a very important point, and I feel very strongly about it. I am sure, as you know, Mr. Chairman, that the language I think in the legislation is very precise, that the authorities granted to A.I.D. for this are clear, and that they are to be consistent with the Sapoa agreement as determined by the Verification Commission.

Maybe what I am hearing is that the Verification Commission must be unanimous before an effective ruling is made.

Is that what you are telling me?

Ambassador Woods. All I am saying is that the Verification Commission is made up of two sides, and only one side has indicated a problem with this.

Senator Harkin. And you do not mind that the Secretary General has had a problem with it?

Ambassador Woods. No, I did not say that.

Senator Harkin. But you said only one person raised a question about it. I think it is a pretty important person, the Secretary General of the OAS. It is very much involved in this.

Well, I hope that you provide, and you said that you would, the names of those congressional staffers with whom you consulted, and who evidently gave you the OK to do this.

Ambassador Woods. I did not say, and I want to be clear about this, that they gave us an OK. They were consulted and no objection was raised.

[The information follows:]

### Nicaraguan Democratic Resistance Consultations

A.I.D. has made every effort to ensure that all congressional committees with jurisdiction or particular interests in the humanitarian assistance program to Central America, as provided for in House Joint Resolution 523 (Public Law 100-276) are fully aware of all aspects of the programs.

This is consistent with both the mandate as provided in the legislation as well as A.I.D.'s policy toward this program. A.I.D. has briefed on a regular basis staff members of the Senate and House Committees on Appropriations, the Senate Committee on Foreign Relations, the House Committee on Foreign Affairs, the Senate Committee on Intelligence, the House Permanent Select Committee on Intelligence, the House Select Committee on Hunger, and the Senate and House Leadership.

### FUNDING FOR VERIFICATION COMMISSION

Senator HARKIN. One final question, Mr. Woods.

How much money did the congressional resolution provide for the Verification Commission?

Ambassador WOODS. $10 million.

Senator HARKIN. How much money has A.I.D. approved for the Verification Commission?

Ambassador WOODS. We have been involved in negotiations with the Verification Commission regarding the provision of that $10 million. Those negotiations have not yet concluded.

Senator HARKIN. You can tell me how much money has been provided yet?

Ambassador WOODS. None at this point.

Senator HARKIN. Well my understanding is approximately $100,000, but if it is zero, it worries me even more.

Ambassador WOODS. We drew up an agreement to provide $100,000 for mobilization activities for the Verification Commission at the end of last week. The Verification Commission, in this case, the Secretary General of the OAS, did not sign it.

Senator HARKIN. If there is no money for the Verification Commission to do its work, to engage in the process of verifying and ensuring compliance with the accord, how do you expect them to do their job if they do not have the funds?

You told me that they are going to load aircraft to go to Tegucigalpa to go out. If there are going to be inspections, how can the Verification Commission do it if they do not have any money?

Ambassador WOODS. We are prepared to sign an agreement instantaneously with the Verification Commission and to provide funds for the Verification Commission, but we also believe that we have an obligation to be able to account for those funds. This issue is at the center of the negotiations that are going on between the Verification Commission and the Task Force.

### GAO AUDIT OF FUNDS

Senator HARKIN. Is there a provision for the GAO to audit those funds?

Ambassador WOODS. Yes, that is my understanding.

There is a provision for the GAO to audit those funds. But we also would have to have in the contract authority for the GAO and other auditors, our own Inspector General, for example, to examine the expenditures. That is one point we are hung up on right now.

Senator HARKIN. Are you saying that the OAS is not agreeing to permitting the GAO to have access to its books on the expenditure of those funds?

Ambassador WOODS. It is not the OAS, although the OAS, in a bureaucratic sense, is involved; it is the Verification Commission. We feel that the contract must explicitly allow for close examination and provide procedures for such examination.

Senator HARKIN. And they are not giving you that?

Ambassador WOODS. That is the case at this point.

Senator HARKIN. Has the Verification Commission submitted a budget request?

Ambassador WOODS. They submitted a budget request as of Monday or Tuesday of this week. I am not sure exactly which day I received it.

Senator HARKIN. You have been in negotiations with the Verification Commission on that point in contention.

Is that the only point in contention, that is, to allow the GAO to have access to OAS books?

Ambassador WOODS. There are basically two areas of contention, which have multiple components. First, it is not just the GAO. It is our other auditors as well, because we have our own responsibilities in that respect; and we must have a description of the program in order to be able to conduct an audit. The second point is the authority to audit. The approach taken by the Secretary General is that this ought to be a contribution to the OAS, in much the same way that the United States makes a contribution to the OAS through the International Organizations and Programs account, which this committee appropriates.

We feel that this is a programmatic activity and that we must have an outline of the program that is going to be funded, as we would with a private voluntary organization, for example. We have negotiated agreements with the OAS before, and in fact, as recently as yesterday afternoon, we sent the OAS a copy of a previous contract which A.I.D. had with the OAS for another activity. We think we are making progress and will soon get it worked out. It is primarily a mechanical question.

Senator HARKIN. Is there a sense of urgency on your part to get it done?

Ambassador WOODS. There is indeed, and that is one of the reasons why we have proposed the contract for the $100,000 mobilization activity, so that they could begin to have a flow of funds, which they rejected.

### ADDITIONAL DELIVERIES TO BOCAY AND YAMALES

Senator HARKIN. Well, then, I come full circle. You are planning some further deliveries to Bocay, as you told me, and evidently some more to Yamales.

How, then, are we going to close the loop on this? Are you telling me that the aircraft to be loaded at Tegucigalpa would be inspected, and by whom?

Ambassador WOODS. As I said, the Honduran Catholic Church.

Senator HARKIN. What about the Verification Commission?

Ambassador WOODS. Well, if the Verification Commission would like to inspect it, we certainly would like to have them there. We have no hesitancy regarding that.

Senator HARKIN. That is why they need the money, so they can do those things.

Ambassador WOODS. And we are prepared to provide the money when they agree to the accountability requirements that we have.

Senator HARKIN. I will check that point and see why the OAS is not agreeing to accountability requirements.

Ambassador WOODS. Let me say we must have accountability for all program activities that we fund—the ability to look at a program and verify that the funds have been spent in an appropriate manner.

There is nothing exceptional about this requirement. It is the same for all program activities. A different procedure is followed when the OAS (or any other organization) receives funds from the U.S. Government which are transferred for general organizational support.

Senator HARKIN. I wish we were as accountable with the money we appropriated a couple of years ago to the Contras that we are still waiting to seem to find, that seemed to evaporate in thin air. I wish we were half as accountable for those funds as you now want to be accountable for the funds to the Verification Commission. I am not saying that you should not be. I am just saying that when we see both of those, you wonder.

Ambassador WOODS. Indeed, this committee has expressed much interest over the years on questions of accountability. We, also, want to maintain careful oversight on how our funds are used.

Senator HARKIN. Mr. Chairman, I do not mean to belabor this point before the committee, and you have been indulgent with me, but I raise the point with you, that if A.I.D. is contemplating further deliveries, especially to Bocay, which is on the border, and you are using an aircraft, and I understand it is Rene Gonzalez, who last flew for the Contras in February of this year, then serious questions have to be raised.

Just the image of using a contract carrier that 2 months ago was flying for the Contras, to now deliver in Honduras while the Sapoa accords are still in effect, raises very serious concerns. It might be all right, but if A.I.D. is going to go ahead with it, I would strongly urge that you reach an agreement with the OAS and the Verification Commission beforehand, and that the Verification Commission agrees that it is in accordance with the Sapoa accords. If not, there are going to be further difficulties.

So I hope that before further shipments are made, Mr. Chairman, that A.I.D. will reach those agreements with the Verification Commission and get the assurances of the Secretary General of the OAS that these shipments are indeed made in accordance with the Sapoa accords. If not, we are in trouble.

Ambassador WOODS. If I may say, Senator, one of the principles on which we have based this program since the law was signed, I guess 4 weeks ago tomorrow, is that everything we are doing, we are doing in an overt, open way. We are prepared to be inspected virtually by anybody at any time.

There were deliveries of clothing yesterday which you may be aware of, not to the Contras, but to our warehouses in Honduras. Members of the news media were present and saw these supplies. All this work is being done in a most open manner. We are telling people exactly what we are doing, and allowing people to look at what we are doing. We do not want any suspicion to be raised that we are doing anything other than providing humanitarian aid, which we believe was the intent of the Congress.

We are particularly concerned that food is in short supply to people in some of these areas. Quite frankly, Senator, these individuals have guns, and we would like not to see people going out and expropriating food at the point of a gun if they are hungry. We are trying to provide assistance to make sure that that does not occur.

Senator HARKIN. Mr. Woods, I do not want to get into a semantic argument with you. I voted for the bill, so I am in favor of providing humanitarian aid under the Sapoa accords. My only point is that the language of the law appears quite clear. The Secretary General has said deliveries are not in accordance with the Sapoa accords. I believe that while I do not propose that we should not give them food aid, we have to be very careful how it is done and that it is done in accordance with the resolution passed by the Congress.

Thank you.

Thank you very much, Mr. Chairman.

Senator INOUYE. I would like to assure the gentleman from Iowa that I will immediately communicate in writing to the GAO to inquire whether the provision of food to the Contras in Honduras is in compliance with the law.

Second, I will now instruct my staff, both majority and minority to immediately consult and confer with A.I.D. officials to come up with a clarification of the problem you have just described here, including the so-called involvement of staff in the determination of policy as alleged.

Senator HARKIN. I appreciate that.

Senator INOUYE. I think the suggestions you have made are serious, and I can assure you that we will have something in writing to you, maybe not tomorrow, but as soon as possible.

Senator HARKIN. I appreciate that, Mr. Chairman. Thank you.

Senator INOUYE. And I am certain we can work with you on that, Ambassador Woods.

Ambassador WOODS. I might add, Senator, that we are at this time preparing responses to the Secretary General of the OAS with regard to these precise issues. Obviously we want to get them to the Secretary General first, since they are in response to letters addressed to the Secretary of State and myself, but we will also be glad to make those letters available as soon as possible to this committee.

### PRIORITY OF IRELAND FOREIGN AID

Senator INOUYE. Mr. Ambassador, over the past 3 years we have appropriated the sum of $120 million to the International Fund for Ireland. It is my understanding that neither the British government nor the government of the Irish Republic or member nations of the European Community have contributed to this fund.

Recently Deputy Secretary Whitehead was quoted as saying that Ireland "ranks down the list" of U.S. foreign aid priorities.

Where do you rank Ireland?

Ambassador WOODS. I have not ranked Ireland in this context. Several years ago, the United States made a commitment to provide $120 million of foreign assistance to the International Fund for Ireland. As of fiscal year 1988, the current fiscal year, we will have fulfilled that $120 million commitment.

At the same time, other countries have contributed to that Fund, I believe, to the total of $1,300,000.

Senator INOUYE. Has Britain contributed?

Ambassador WOODS. No, they have not, to my knowledge.

Senator INOUYE. Northern Ireland?

Ambassador WOODS. Two countries have made contributions—Canada and New Zealand. The Canadians have made a 10-year commitment of $1 million a year. As of around 30 days ago, they had paid $1 million of that. The $300,000 came from New Zealand, but I do not believe they have a long-term commitment.

The U.S. Government has fulfilled its commitment to the International Fund for Ireland.

Senator INOUYE. Are we urging the British and Irish governments to contribute to the fund?

Ambassador WOODS. To be honest with you, Senator, my knowledge is deficient on this point. I am not sure whether it was contemplated that the British and Irish governments would contribute to the Fund. Mrs. Bloch may be more informed.

Ms. BLOCH. We are working with the International Fund and urging the International Fund to work with the British and the Irish as well as the EEC to make greater contributions.

### FUTURE U.S. AID ROLE IN AFGHANISTAN

Senator INOUYE. Thank you, Mrs. Bloch.

Now, if I may turn to Afghanistan, in the past 8 years I think the numbers suggest that perhaps 1,200,000 people have died in Afghanistan, and the rural population, which was then, 8 years ago, 85 percent of the total population, is now down to 23 percent. Obviously a lot of people have moved out, refugees I think for the most part.

Do you have any plans to become involved in this reconstruction effort, because the United States has played a major role in this struggle in Afghanistan.

Ambassador WOODS. We have been in the process of planning the U.S. role for some time—let me not say role—U.S. activities relating to reconstruction in Afghanistan. This is very much contingency planning because it is uncertain when the opportunity to start such activities will occur.

You are acquainted, I know, with the Geneva accords which will provide for the total removal of Soviet troops from Afghanistan by February of next year, but even once Soviet troops have left Afghanistan, one presumes that there will still be a substantial amount of fighting going on between the resistance and the government that occupies Kabul.

We presume, as we are doing our planning, that people will not start to go back into Afghanistan or move within Afghanistan until some stability is restored which would allow them to go back to farming.

Any potential program will be affected by when people will move, what season of the year it is—when people might leave the areas where they have an infrastructure and where food is available, to return to their farms. We estimate that there could be 8 million people who will move; 3 million from Pakistan, approximately the same number in Afghanistan itself that have been displaced within the borders, and another 2 million or so from Iran.

It is a very complex planning process. We believe that because of the nature of the conflict, at the early stages and possibly even the later stages, this activity ought to be done under some sort of multilateral umbrella. We have been encouraging the U.N. to examine this idea, and the U.N. has started planning to provide international leadership—an international umbrella under which we all could operate.

Senator INOUYE. Are other countries showing interest?

Ambassador WOODS. Some other countries have shown interest, and we are encouraging that.

## FINANCIAL EXPERTS IN LIBERIA

Senator INOUYE. I would like now to touch upon Liberia, which is a rather hot spot at the present time.

Last December A.I.D. sent a team of, I think, 17 financial and accounting experts to Liberia in what was described as last ditch effort to introduce some semblance of order into the national accounts of the Liberian treasury. Now, these experts were given extraordinary powers, including the right to approve or disapprove government spending, and I believe that their countersignature was required before government checks could be cashed.

Is it true that the Liberians have simply created a second set of accounts and checkbooks to avoid these requirements?

Ambassador WOODS. Our operational experts, OPEX, I think we call them, have been active in Liberia and have been up and running in the full sense only since January 1988. At this moment I do not think we see any evidence of a second set of books having been created. In fact, the cooperation of the Liberian government for this activity has been quite good.

We have had some bumps along the road, I might say, which caused us concern. One was the removal and replacement of the Minister of Finance. However, the man who replaced him seems to be as cooperative as was his predecessor. We owe the Congress a progress report on this and we will be providing that in July.

It is not a perfect solution, though it seems to be working reasonably well at this early stage.

Senator INOUYE. Have the Liberians been advised that if they fail to cooperate, or if they obstruct or undermine our efforts, that we are prepared to withdraw?

Ambassador WOODS. I would ask Mr. Gladson, who is our Assistant Administrator for Africa, to comment.

Mr. GLADSON. Mr. Chairman, the Liberians have been made very well aware on a continuous basis that they are indeed in trouble by our embassy, by myself and by the State Department's Assistant Secretary for Africa. They know that this is a make or break situation, and they have cooperated with us to this point.

The OPEX team has had a significant role in improving the financial management of the Government of Liberia. They are on top of issues that have been recognized by this committee for sometime; namely, extrabudgetary expenditures and out of control budget allocations. Not only are they on top of the situation, but they are receiving the cooperation of the Government of Liberia.

I had a meeting only last week with the Liberian Minister of Finance, who was here, and I had the opportunity at that time to point out one problem that the mission was having with respect to the role of the one OPEX officer in the Central Bank. The minister was absolutely furious to learn from me that there was a problem. He pointed out that the president of the Central Bank was a personal friend of his, and he would be on the phone immediately to correct this problem.

So there is cooperation within the Government of Liberia. It is too early to call this a success, but we are moving in the right direction.

### LIBERIA-BROOKE ARREARAGES

Senator INOUYE. I believe in Liberia they are in arrears in their debt to the U.S. and therefore technically would not be in compliance with the Brooke amendment.

Are we prepared to do something about this?

Mr. GLADSON. Liberia is presently in trouble with respect to the Brooke amendment. We do expect a payment in the next week or two, but as you know, Mr. Chairman, Liberia has been in and out of Brooke for years. The more serious problem is meeting the conditions that have been placed upon Liberia on the economic side under the continuing resolution.

One of the requirements they must meet is the payment to a special account of 3.1 million Liberian dollars, which represents a shortfall in generations under the Title I program. Unless that money is found, there will be no ESF this year. The Liberians have been made well aware of that by myself and others. They are also aware that unless they pay their dollar arrearages under the previous title I credits, they will not get a title I program next year. They are in a corner, and we are going to keep them in that corner. We are going to make them perform. There will be no slacking off.

### U.S. TRAVEL EXPENSES PAID TO AFRICANS

Senator INOUYE. We have learned that A.I.D.'s Africa Bureau have paid the travel expenses of a number of African individuals who come to the United States to discuss, and I quote, "pending legislation to authorize the development fund for sub-Saharan Africa."

What I want to know is how is this justified when in the CR we provided both authorization and appropriation for the sub-Saharan development assistance? It is already authorized.

Mr. GLADSON. Mr. Chairman, I was only made aware of this problem yesterday. There are 16 African nongovernment organization [NGO] officials who are coming to the United States at the invitation of InterAction, the American PVO coordinating organization, for their annual meeting in Philadelphia. The objective was to get African NGO officials and American PVO officials talking to each other, which, of course, is directly within the spirit of the conference report on the role of NGO's and PVO's in carrying out development in Africa, and which we very strongly support.

A.I.D. agreed to pay for 6 of the 16 officials to come to Philadelphia. It was then decided that it would be a good idea to have the 16 officials come to Washington while they were in the United States, to learn more about the A.I.D. Program. They were invited to Washington. There were meetings scheduled with A.I.D. officials and PVO officials.

Somebody got the idea that it would be nice to have these visiting NGO officials also have an opportunity to discuss their programs on the Hill and to learn more about the various Committees' positions and the Congress' position on the Development Fund for Africa and our priorities as Congress sees those priorities for African development, which is fine.

Unfortunately, the people responsible for this brought in a sister organization of A.I.D.'s, a government organization, for which funds are appropriated by this committee, to sponsor the particular part of the visit, namely, the meetings on the Hill.

Arrangements were made to have a meeting in the House. A letter of invitation, which was completely erroneous, was sent to the staffs of congressional committees, as I understand it. It was to be a meeting to which Hill staff were invited to meet these NGO's. The appearance was given that they were to be here to lobby the Congress on authorizing legislation, of all things. There is no authorizing legislation pending that I know of on the African Fund.

Having been made aware of this problem, Mr. Chairman, I have decided forthwith to cancel the meeting and any A.I.D. involvement whatsoever in such a meeting on the Hill, which I believe is improper and perhaps even illegal. I am submitting a further clarification for the record.

[The information follows:]

### U.S. TRAVEL EXPENSES PAID TO AFRICANS

Mr. Chairman, there has been a very unfortunate misunderstanding regarding the purpose of the visit of the African NGO officials to Washington. I will now try to clarify this for you.

Inter-Action, the U.S. PVO coordinating organization, planned its annual conference in Philadelphia this year on the theme of "North-South Partnership." In order to promote a dialog between the U.S. PVO's and African NGO's on this theme, A.I.D.'s Africa Bureau thought that it was appropriate and fully within the spirit of the fiscal year 1988 Continuing Resolution and the Conference Report on the role of African NGO's and U.S. PVO's in African development to assist Inter-Action by sponsoring the participation of six African NGO officials in the Philadelphia meeting. Other African participants were sponsored by individual U.S. PVO's and by the World Bank.

It was also decided that it would be very helpful to the Africa Bureau in our efforts to implement the Development Fund for Africa mandate to work more closely with African NGO's to benefit from the presence of these 16 or so African NGO representatives in the United States by inviting them to Washington for discussions with Africa Bureau staff. The objective of these meetings is to hear the Africans' views on overall development priorities in Africa and of African NGO's potential role in implementing the Development Fund for Africa. In particular, we are interested in learning from their past experience with A.I.D. and in identifying their needs in terms of a future relationship. We have planned a half day of meetings at the Africa Bureau and a half day of joint meetings with the World Bank staff on country specific issues.

The meeting with congressional committee staff to which you referred, which was to be cosponsored with the African Development Foundation, was intended to give the African NGO officials an opportunity to inform Congress about their programs and approaches to grassroots development and to learn more about the positions of Congress and the committees with reference to the Development Fund for Africa and to overall priorities for African development. The Africa Bureau certainly did not intend for the African representatives to discuss any pending legislation.

Unfortunately, the letter of invitation which was sent to the congressional committee staff incorrectly represented A.I.D.'s intentions in setting up this meeting. The letter was not cleared by A.I.D. Had it been, I'm sure we could have avoided this misunderstanding.

Under the circumstances, however, so as to avoid any further confusion on this matter, I have decided to cancel the meeting. A letter will be sent to the invitees informing them of the cancellation.

### MOZAMBIQUE REFUGEES

Senator INOUYE. I thank you very much.

May I now go to Mozambique?

A recent report by the State Department describes the civilian population in the RENAMO controlled areas as a captive one. In these areas, spread over at least 15 percent of Mozambique, the population is forced to work without pay and given no food. Those who are able to grow their own food face an unbearable level of extortion so that they are very weak and hungry. This is according to one of the officials. Many are too weak to escape, and that is why refugees are showing up in the camps looking like walking skeletons. Now, these are quotes.

What is being done by the United States to aid these refugees displaced by the civil war? I think there are over 750,000 of them.

Mr. GLADSON. Mr. Chairman, the Mozambican refugee problem is greatest in Malawi. My latest information is that there are perhaps 500,000 Mozambican refugees in Malawi. The United States is participating with the United Nations High Commission for Refugees [UNHCR] in a very large way in providing for these refugees in Malawi.

Senator INOUYE. What are we providing?

Mr. GLADSON. On a bilateral basis we are providing substantial amounts of title II and section 416 emergency food aid, medicines, clothes, and the like. We are helping to provide temporary shelters for new arrivals. We have also provided $4.4 million in response to a U.N. worldwide emergency appeal for $14.7 million to assist Mozambican refugees in Malawi. These funds have helped UNHCR to establish camps, supply water and procure trucks and other commodities.

I am satisfied that the Mozambican refugees in Malawi are now being properly cared for. I think that the UNHCR was a little bit slow to pick up on providing assistance to Malawi. We were very active in urging international action, and I think that the Mozambican refugees are now receiving adequate care. In neighboring countries with similar refugee populations, we are providing UNHCR with about 25 percent of its budget requirements.

We have not taken care of the source of the problem which is, of course, the continued exodus of people from Mozambique under extreme circumstances.

### USE OF SUPPLEMENTAL APPROPRIATION FOR SOUTHERN AFRICA

Senator INOUYE. Has any of the 1986 special supplemental appropriation for southern Africa been used to alleviate human suffering in Mozambique?

Mr. GLADSON. Yes, of the $6.7 million from the fiscal year 1987 supplemental for humanitarian assistance to Southern Africa, approximately $4.9 million is being used to alleviate human suffering in Mozambique.

### OBLIGATION OF FUNDING

Senator INOUYE. I would like to get an accounting from your office as to how these moneys have been obligated.

Mr. GLADSON. Yes, sir.

Senator INOUYE. I would appreciate that.

[The information follows:]

## HUMANITARIAN ASSISTANCE TO SOUTHERN AFRICA UNDER FY 1987 SUPPLEMENTAL APPROPRIATION

| COUNTRY | ACTIVITY/GRANTEE | AMOUNT |
|---|---|---|
| Funds Obligated | | |
| Botswana | Emergency water project -- well repair | $544,500 |
| Lesotho | Relief for victims of storm/flooding; Lesotho Red Cross | 631,091 |
| Malawi | Personal services contractor for emergency program management | 152,000 |
| Malawi | Local procurement of relief supplies | 100,000 |
| Malawi | Emergency medical supplies; World Vision | 68,300 |
| Mozambique | Relief operations; International Committee of the Red Cross | 1,200,000 |
| Mozambique | Personal services contractor for emergency program monitoring | 110,000 |
| Mozambique | Distribution of clothing to displaced people; Adventist Relief and Development Agency | 46,767 |
| Mozambique | Consultants on orphans traumatized by war | 11,000 |
| Zambia | Emergency program monitor | 45,000 |
| Various | Distribution of clothing to displaced people and refugees in Mozambique, Zimbabwe and Malawi; World Vision | 243,500 |
| Total Obligated | | $3,152,158 |
| Funds Earmarked But Not Obligated | | |
| Mozambique | Agricultural recovery packages; World Vision | $812,000 |
| Mozambique | Transport of relief food; World Vision | 395,915 |
| Mozambique | Emergency health program; World Vision | 325,085 |
| Mozambique | Support for Department for Prevention and Combat of Natural Calamities; CARE | 1,053,842 |
| Mozambique | Water and agricultural recovery; Africare | 200,000 |
| Mozambique | Transport of relief supplies and personnel; AirServe | 320,000 |
| Mozambique | Relief and rehabilitation program; Save the Children | 390,000 |
| Total Earmarked | | $3,496,842 |
| Grand Total | | $6,649,000 |

### SUDANESE REFUGEES

Senator INOUYE. I have another question on Sudan, if I may.

Since February, more than 35,000 refugees have fled to the town of Safaha to escape the civil war in Sudan. We have been told that disease and famine are rampant and that the central government has clamped a security cordon around the region, making relief almost impossible. One doctor has described to us the conditions in Safaha as worse than the Ethiopian famine.

Have we protested this?

Mr. GLADSON. Mr. Chairman, I do not have the same understanding as that report. The 15,750 people that have come from southern Sudan, are being properly cared for. They have traveled a long way, and they are in very bad shape. I understand that Oxfam has undertaken the responsibility of resettling these refugees, and we are supporting that program in a big way.

I am not aware of any difficulty with respect to serving the need of the refugees at this time.

Senator INOUYE. I would like to bring to your attention an article which appeared in the Friday, April 15, 1988 issue of the Atlanta Constitution. I have no way of verifying whether this article is correct or not, but the dark headline is "At Sudan Camp, a Stench of Death; Children Up for Sale as 20,000 Hungry Refugees Seek a Way Out." And I would like to share this article with you, sir.

It looks pretty bad.

Mr. Ambassador, we have many questions that we would like to submit. I have had calls from other Senators. The ranking member of this committee, Senator Kasten, is presently in an important conference with the Secretary of State, and he sends his regrets. Senator Leahy has an opening statement that he would like to make, and without objection, it will be placed at the appropriate spot, and he has a series of questions.

[The statement follows:]

### PREPARED STATEMENT OF HON. PATRICK LEAHY

U.S. SENATOR FROM VERMONT

Mr. Chairman, like most Vermonters, I am a strong supporter of foreign aid, especially the first two goals of the Foreign Assistance Act:

—the alleviation of poverty; and

—to help developing countries achieve self-sustaining growth with a fair distribution of wealth.

I know A.I.D. is working toward those goals. But the task is overwhelming. In 1961 when Congress passed the Foreign Assistance Act, the population of the world was 3 billion and we spent $19 billion on foreign aid. Now there are 5 billion people and we spend $13 million. By the year 2020, the combined populations of Africa and Asia alone will be 6 billion.

Our foreign aid is like a finger in a dike that is leaking all around it.

Since 1961, Americans have poured out over $800 billion in foreign aid. Yet, the rate of income growth in the poor countries is the same today as in 1980, and just one-half what it was in 1970.

In Africa, people are eating *less* today than they were in 1980. This year, 40,000 children will die from hunger and diseases we can cure.

In 1980, the foreign debt of the developing countries was $450 million. Today it is $900 million.

The leaks in the dike are getting bigger, not smaller.

This isn't because our foreign aid goals are wrong or that A.I.D. is doing a bad job. Our intentions are good, but the unavoidable reality is that our foreign aid programs are not dealing effectively with the world's problems.

Part of the reason is misplaced priorities. Since 1980, our humanitarian and development aid has risen by just 20 percent, while military aid to the developing countries rose by 300 percent.

It is also because our programs simply have not accomplished what we hoped. Our economic support to the developing countries has risen 90 percent since 1980. A.I.D. maintains that this will lead to economic growth, and the benefits will trickle down to the poor. But since 1980, these countries' Gross Domestic Products have, on average, remained the same. Is this the best way to help the poor, or should our aid be aimed at them more directly?

Foreign aid furthers our own interests and can make the difference between life and death for millions of people. But I often feel that we are on a train rumbling along a track to an unknown destination without a timetable.

Nobody knows where we're going or when we're going to arrive.

A.I.D. says its goal is "to put itself out of business," but actually the trend is in the opposite direction. We keep spending billions of dollars, but are things really getting measurably better? I know A.I.D. can point to successes, but the fact is the gap between rich and poor countries is getting *wider*, not narrower.

Are we any closer to the foreign aid goals that Congress wrote into the law in 1961? What long-range targets have we set for ourselves? How do we measure progress?

The world is a very different place than when Congress passed the Foreign Assistance Act a quarter of a century ago. Money is scarce. It's time to take a hard look at how and why we give aid. We all want the same thing—to end hunger, disease and illiteracy.

I think all of us involved in the aid process should be thinking a lot harder about how effective our aid is in getting the results we want, and less on worrying about how much one particular program is getting compared to another.

Mr. Woods, welcome. I look forward to working with you.

Senator INOUYE. Before closing this hearing, I would like to say that I am extremely pleased to see Mrs. Bloch here, and I gather you have received your recognition, which I think is deserved. If you recall the last time you were not permitted to sit at our table because of a technicality regarding your confirmation, I believe, as Assistant Administrator. I believe now that has been clarified, has it not?

Ms. BLOCH. Yes.

Senator INOUYE. Congratulations.

Ms. BLOCH. Thank you.

Senator INOUYE. Mr. Ambassador, I would like to thank you again for being with us this morning.

## SUBMITTED QUESTIONS

I, together with other subcommittee members, have many questions to submit, questions that may clarify some of the problems that were discussed with Senator Harkin.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### CHILDREN'S SURVIVAL ASSISTANCE PROGRAM

SENATOR INOUYE: Since A.I.D. began its selection process for contra assistance, there has been criticism of the way in which decisions have been made. In particular, some organizations have charged that the application process favored large PVOs with a long history of funding by A.I.D. over the smaller PVOs which were less familiar with the proposal process, but which may have excellent technical abilities.

How do you respond to this criticism and the charge that the PVO review process was conducted in a hastily arranged fashion and without broad public notification?

AMB. WOODS: Fast-response solicitation for emergency relief assistance from private voluntary organizations (PVOs) and international relief agencies is a normal activity in A.I.D. Standardized procedures are in place to ensure qualified competitors have the opportunity to respond with proposals when such assistance is needed. The solicitation and processing of proposals for the Children's Survival Assistance Program (CSAP) followed these pre-established, fast-response procedural mechanisms.

Specifically, A.I.D. contacted PVOs registered with the Agency with proven track records in providing the services specified in the legislation. As registered agencies, these PVOs have been pre-screened for financial and organizational legitimacy. We also notified InterAction, the trade association for U.S. PVOs, and the international relief organizations specifically cited in the legislation and held an open meeting for all those interested to discuss the proposal process.

In response, we received 13 substantive proposals from a wide variety of organizations, covering all interventions cited in the legislation and totaling almost three times the amount of available funding. A.I.D. received more proposals--not fewer--than anticipated. This shows us that the solicitation process was effective and that the fast-response deadline was feasible. All the proposals were reviewed thoroughly by a six-member review committee using the same rigorous procedures applied to the other competitive PVO grant programs managed by A.I.D.'s Office of Private and Voluntary Cooperation.

SENATOR INOUYE: What is A.I.D. doing to ensure that all PVOs applying for contra funding are treated fairly?

AMB. WOODS: All proposals received from the PVOs requesting funding under the CSAP were competitively analyzed and ranked by an experienced six-member review committee. The committee systematically applied a standard set of criteria to each proposal. Its funding recommendations were based upon a competitive rank ordering determined by how well each applicant met these review criteria.

SENATOR INOUYE: How is A.I.D. handling proposals from non-A.I.D. registered PVOs which offer services useful in the humanitarian assistance effort in Nicaragua?

AMB. WOODS: A.I.D. did not receive any proposals from non-registered PVOs by the proposal deadline of April 18, 1988. Non-registered groups interested in being considered for the remaining $5.5 million currently being held in short-term reserve are being provided with the names of organizations awarded CSAP funding for possible collaboration. This is in keeping with the strategy of limiting access to CSAP reserve funds to those organizations with proven track records that can fill legitimate group coverage, technical or geographical gaps that may occur.

## CONTRA ASSISTANCE

SENATOR INOUYE: What difficulties has A.I.D. encountered in administering the contra assistance program?

AMB. WOODS: The key obstacle has been the inability to deliver food and other humanitarian aid to the resistance inside Nicaragua as called for in the Sapoa Agreement. When Congress passed this legislation, it was assumed that a modus operandi in the cease-fire zones would be negotiated promptly and that the Nicaraguan Government would allow food to be delivered to the resistance inside Nicaragua. However, nearly two months later, this has not been the case, and talks between the resistance and government to resolve this issue have failed to produce results. The resistance are either going hungry or going to Honduras.

In order to comply with the Congressional mandate, we have begun to provide humanitarian assistance to resistance forces in Honduras and have approved a cash-for-food program to the resistance for delivery to units within Nicaragua.

Operating with the approval of the Honduran government, we have made every effort to comply with the spirit of the Sapoa Agreement by using neutral parties (independent Honduran truckers and air cargo companies) with verification by the Honduran Catholic Church. In addition, auditors from a prestigious private accounting firm, Price-Waterhouse, are monitoring the operation.

Because we have had these difficulties delivering food in Nicaragua, A.I.D., on May 13, also approved a cash-for-food program for the resistance. Deliveries of cash, which will be carried by the resistance to units within Nicaragua, are expected to begin around the end of May.

There has been some concern on the funding of the Verification Commission consisting of Joao Baena Soares, Secretary General of the Organization of American States (O.A.S.), and Cardinal Miguel Obando y Bravo, leader of the Nicaraguan Catholic Church. Because A.I.D. is accountable for the $10 million earmarked to support the Commission, we felt it necessary to ensure a plan of action and budget were in place before releasing the funds. After extensive consultation with both parties, we have signed an agreement that meets our minimum requirements and satisfies our understanding of the intent of Congress that both parties be fully and equally engaged in the Commission. The document was signed on May 18.

Negotiating a plan of action and budget was difficult, and we invested countless hours attempting to forge a simple, clear agreement to support all activities of the Commission related to verifying compliance with Sapoa, Esquipulas, and any subsequent agreements.

Our first challenge was getting the Commission members to work together so that that activities of both are supported as Congress intended. There were disagreements between the O.A.S. and the Cardinal's representatives regarding Obando's role in the verification process. There also was difficulty for the Secretary General in providing us with an operational program or an estimated budget. We are pleased that the difficulties were overcome and an agreement signed so that the critical process of verifying compliance with Sapoa and Esquipulas II can proceed with vigor and thoroughness.

SENATOR INOUYE: What is the amount of U.S. aid slated to be channeled through the contra military versus the political directorate?

AMB. WOODS: All of the humanitarian assistance has been channeled through military elements of the resistance because they have the logistical capability to resupply forces with food and other humanitarian aid. We anticipate continuing to supply assistance in this fashion.

The political directorate of the Nicaraguan resistance has been consulted on a regular basis and appears to be supportive of all of our efforts.

SENATOR INOUYE: Please provide the process which A.I.D. is using to select private voluntary organizations responsible for disbursing the recently enacted contra assistance package?

AMB. WOODS: In selecting organizations for the Children's Survival Assistance Program, the proposal review committee first assessed each organization's track record to ensure its financial, administrative and technical capacity and competence to carry out its proposed program. In making its presentation, in addition to its proven capacity, each organization had to demonstrate its willingness and ability to carry out an independent, rapid, effective emergency relieve intervention in the proposed countries. In the case of Nicaragua, this would entail the willingness and ability to implement its proposal through private channels, as required by the U.S. law, outside direct Government of Nicaragua control.

The second set of criteria addressed the quality of the proposed program, the balance and mix of its program components, the coherence and feasibility of the implementation strategy and the budget.

The third set of criteria focused on technical and geographical preference areas cited in the legislation, such as experience in treating physical injuries, burns, surgery and the capacity to operate within Nicaragua.

SENATOR INOUYE: Where do we now stand in this process?

AMB. WOODS: The selection process for the main recipients of CSAP funds has been completed. The award decisions were publicly announced on April 27. Grant documents have been negotiated and nine grants signed to date.

SENATOR INOUYE: I understand that the first group of organizations selected by A.I.D. was to be announced on Monday. What is delaying this announcement?

AMB. WOODS: A.I.D. notified those PVOs whose proposals had been accepted on April 26. This was in keeping with our timetable. Public announcement of the decisions was delayed one day in order to give the recipient organizations time to make necessary internal notifications to their staff and overseas partners and affiliates.

SENATOR INOUYE: I understand that the remaining funds, totalling approximately $4-5 million, will be available to private voluntary organizations as part of the second and last disbursement.

What is the timetable for this second disbursement and what organizations are likely to benefit?

AMB. WOODS: A.I.D. plans to allocate the reserve funds by July 31. Decisions will be guided by the regional emergency needs assessment being carried out by CARE to ensure full coverage of Nicaraguan children in need of care. The assessment will also include input from all active CSAP organizations, the A.I.D. missions in Honduras and Costa Rica and the U.S. Embassy in Nicaragua.

The organizations likely to benefit from the reserve are those 17 PVOs and international relief agencies that submitted proposals and expressions of interest on or before April 18. Follow-on proposals from these agencies that meet the reserve criteria will be considered. Additional funding to cover unanticipated costs in programs of the CSAP-awarded organizations will also be considered. All other interested organizations will be encouraged to link up with CSAP organizations as appropriate. Any potential collaboration, of course, will be subject to demonstrable capacity to provide a needed service and acceptability to the grantee and A.I.D.

## YATAMA

SENATOR INOUYE: The resolution passed by the Congress directed that approximately $2 million in assistance be provided to the Yatama indians.

What action has A.I.D. taken to comply with this congressional mandate?

AMB. WOODS: A.I.D. has been in contact with various representatives of the Yatama organization. Humanitarian assistance is now being provided directly to the Indian forces and their families in Honduras. The same logistics system is being used to supply food and medical supplies to the Indian forces as is being used to supply the Nicaraguan resistance. Due to the remote locations of Yatama forces, deliveries are being made by airdrop. An estimated 55,000 pounds of food and some medical supplies were delivered to Indian groups as of May 26. Deliveries are continuing. In addition, A.I.D. authorized family assistance payments of $32,000 for 159 families, and those payments are now being made to individual recipients.

As we explained to Yatama leaders, we respect their autonomy and do not plan to try to subordinate them to any other group, nor do we wish to intervene in their internal political squabbles. Although some have suggested that we simply turn funds over to political leaders of the Yatama, we are operating on the same basis as with the large resistance organization, that is, getting assistance directly to the fighting forces. . A.I.D. is using the same high standards of accountability in delivering aid to the Indians as we are for other members of the resistance.

SENATOR INOUYE: Do you anticipate any difficulty in implementing this assistance provision?

AMB. WOODS: Yes. Because to date we are only able to conduct full assistance and resupply operations in Honduras and, as far as we can determine, there are a relatively small number of Yatama forces there, we will have difficulty achieving the earmarked level of $2.19 million for Yatama. In addition, the job of identifying the number, location and needs of the Yatama beneficiaries given their remoteness has made delivery and accounting somewhat more difficult. We are overcoming the latter problem, and assistance is flowing now.

With respect to the political problem of bids for control over the flow of assistance within Yatama, A.I.D. will not engage in the internal political struggles of Yatama and is delivering aid directly to the Yatama forces and their families. To our knowledge, no Yatama forces eligible under the legislation are being left unserved by our approach.

### COSTA RICA - NARCOTICS CONTROL

SENATOR INOUYE: According to conservative estimates, at least 15 metric tons or 15 thousand kilos of cocaine, both raw and processed, pass through Costa Rica annually. The total value of this load, some $800 million, is almost equal to the total dollar value of Costa Rica's exports. Most of this drug cargo is destined for the streets of the United States.

What effort is made by A.I.D. to ensure that A.I.D. funded private enterprise initiatives undertaken in Costa Rica do not provide collateral benefits to Latin American drug operations?

AMB. WOODS: In July 1986 the A.I.D. mission in Costa Rica with A.I.D./Washington consent issued instructions to the intermediate credit institutions (ICIs), through which we channel funds to the private sector, to inform A.I.D. of the names of loan applicants before approving new loans. That information was then shared with the local Drug Enforcement Agency (DEA) office which ran a check on those individuals and organizations for possible involvement in narcotics trafficking. On advice of DEA and A.I.D. counsel, the screening procedure has been stopped, pending review of record-keeping requirements under the Privacy Act, as well as other issues. Collection and dissemination of such information would violate the Privacy Act, absent specific authorizations and safeguards as required by that act. We will shortly instruct our A.I.D. Mission in Costa Rica to advise credit institutions receiving A.I.D. financing that we expect them to process loan applications consistent with locally accepted banking practices and to suggest that when questions arise as to the bonafides of borrowers, including possible links to drug trafficking, that the credit institution check with their local police authorities before proceeding. A.I.D.'s Office of the General Counsel is currently exploring whether there are alternative ways of using DEA resources.

SENATOR INOUYE: For example, does A.I.D. take measures to ensure that assistance, say to the transportation sector, does not, inadvertently, facilitate the trans-shipment of drugs?

AMB. WOODS: A.I.D. is financing programs in a number of sectors in Costa Rica and elsewhere which improve the road infrastructure and facilities involved in internal and external trade. Clearly we would take a very careful look at projects in areas known to be important to drug producing or trafficking to ensure that the facilities we finance do not exacerbate the problems.

### NARCOTICS CONTROL

SENATOR INOUYE: What success, if any, has A.I.D. had in convincing rural farmers in the developing world to move from the production of illicit cash crops such as marijuana, heroin and cocaine to basic food commodities?

AMB. WOODS: Development is a long-term effort, and this includes our narcotics control programs. Rural farmers who have engaged in illicit crop production for years are not likely to change overnight. Nevertheless, we are seeing a growing interest in decreasing reliance on these crops in several countries. Our Northwest Frontier Area Development project in Pakistan, for example, is beginning to see a reduction in the opium crop and the introduction of new crops. Coca eradication has become more successful in Bolivia.

I believe that our increased emphasis on narcotics education will soon have an important impact on illicit crop cultivation. Such education programs, now in ten countries, have been helpful in demonstrating that narcotics abuse is no longer only a U.S. problem. These programs have mobilized host country action in several countries and complement our ongoing income-substitution projects.

SENATOR INOUYE: If countries cooperate with the United States in the control of narcotics, does this create a significant U.S. obligation to offset the economic loss incurred by their reduction of the drug flow?

AMB. WOODS: The basic premise of our income-substitution programs is to help major narcotics-production regions diversify their economies and their reliance on illicit crops by introducing new crops and creating off-farm employment. It is essential that our programs help farmers who choose not to grow illicit crops. Without an effort to offset potential economic loss, no employment efforts will be successful over the long term.

SENATOR INOUYE: Do you believe that aid sanctions are effective against countries trafficking in drugs?

AMB. WOODS: Congress has been helpful in emphasizing the importance the U.S. Government places on narcotics enforcement overseas. It reinforces the discussions the State Department, A.I.D. and other agencies have undertaken in the third world. I believe, however, that sanctions are not the best approach to the drug problems. Sanctions could cause hardships to millions of people in these underdeveloped countries. Suspension of important programs which provide health care, among others, would penalize innocent people. Suspension of narcotics education programs would be disruptive and work against our goals. Further, sanctions would undermine the behind-the-scenes work we have been pursuing with government officials in several countries.

SENATOR INOUYE: Do you believe that sanctions should be accompanied by positive incentives to foster cooperation in narcotics control?

AMB. WOODS: I believe incentives can be a useful tool in our anti-narcotics program. In addition to emphasizing the positive, rather than the negative, they could provide significant leverage. It is a vehicle to improve cooperation with governments as well as with local farmers.

## PANAMA

SENATOR INOUYE: There have been reports that the Administration has had misgivings about the sweeping American sanctions imposed on the economy of Panama and is considering relaxing some of them within a week.

Have you been consulted on the imposition, and now possible revocation, of the Panama sanctions? If not, why not?

AMB. WOODS: A.I.D. took initial action to put a hold on the A.I.D. program immediately after the mob action in June of last year. Following Secretary Shultz's lead, A.I.D. suspended its program in July and terminated all but a few remaining private sector activities after A.I.D. was expelled from Panama by the Noriega regime in December. A.I.D. participated in some of the interagency meetings prior to the decision to impose sanctions this year, but A.I.D. was not directly involved in the decision making on sanctions since that issue involved broad foreign policy issues rather than the economic assistance programs administered by A.I.D.

SENATOR INOUYE: How have these sanctions impacted A.I.D. activities and programs in Panama?

AMB. WOODS: The sanctions, imposed after General Noriega deposed President Delvalle, have had no material effect on A.I.D.'s program in Panama. The A.I.D. program was frozen last July and then formally terminated in December after the Noriega/Solis regime ordered the A.I.D. Mission out of Panama, and prior to the imposition of sanctions. Since then, A.I.D.'s only new activity in Panama has been to assist in providing humanitarian food relief.

SENATOR INOUYE: Would you recommend the revocation of the Panama sanctions? If so, which ones?

AMB. WOODS: As I stated a minute ago, the sanctions relate to broad foreign policy and narcotics control policy issues which are largely in the province of the Department of State.

## WEST BANK/GAZA

SENATOR INOUYE: In 1975 the United States Government initiated a program of development assistance to the West Bank and Gaza to express American concern for the Palestinian people and to support progress toward peace in the region. The program is administered by A.I.D. primarily through grants to private voluntary organizations. Since 1975, $76 million has been provided for projects under this program.

What have been the successes and the failures associated with this program?

AMB. WOODS: The A.I.D.-funded private voluntary organizations (PVOs) have run impressive programs of economic development in the Occupied Territories. We are currently funding in the Territories the operations of six U.S. PVOs and one indigenous Gazan agency. These PVO programs have assisted Palestinian cooperatives in improving their financial and program management in land reclamation, irrigation, agricultural mechanization and marketing, and food processing. PVOs have assisted Palestinian municipalities to establish marketing centers that facilitate marketing and generate municipal revenue. PVOs provide training in health, nutrition, and sanitation in Palestinian villages, and manage village-based community development activities that increase production, marketing and incomes. The indigenous Gazan PVO provides rehabilitation training to physically and mentally handicapped children in Gaza.

I am pleased to say that because these PVOs have long experience in the region and an excellent understanding of the people, their programs have not had failures as such. Some individual PVO projects from time to time run into roadblocks. Some have had to refocus their energies to meet changing needs. Some programs have to work within certain external constraints. Agricultural development activities, for example, must work within the production and marketing constraints imposed by the Governments of Israel and, to a lesser extent, Jordan. A.I.D. has begun discussing constraints such as these with both governments.

SENATOR INOUYE: Has it fulfilled its original objectives?

AMB. WOODS: The concrete achievements of the PVO programs and their identification with the United States lead me to believe that the program is fulfilling its original objectives. We are pleased with the development progress and with the American identification with these programs. We would like to do more, particularly in the area of private sector job creation, and will do so as budgets and conditions on the ground permit.

SENATOR INOUYE: What else might be done in the context of this program to improve the quality of life of Palestinians in the West Bank and Gaza?

AMB. WOODS: A.I.D. has recently decided to expand the scope of the West Bank and Gaza program to include direct assistance to the Palestinian private sector and dialogue with the Governments of Israel and Jordan on constraints to West Bank and Gaza production and trade. A.I.D. is designing a project that will make U.S. management expertise available to West Bank and Gazan businesses and manufacturing firms.

The scope of this management project and discussions of trade constraints are limited at present because of the current unrest. The field posts are monitoring the situation carefully.

SENATOR INOUYE: Has A.I.D. funded programs which have involved both Palestinians and Israelis in cooperative endeavors? If so, please describe them.

AMB. WOODS: To date A.I.D. has not funded such activities. The Regional Cooperation program sponsors activities primarily between Israel and Egypt, though a few regional projects - in the social sciences - also involve participation from Palestinians in the West Bank and Gaza. A cooperative program between Israelis and Palestinians might be possible in an atmosphere of reconciliation that progress toward lasting peace would foster.

SENATOR INOUYE: In light of the recent uprising in the West Bank and Gaza, has A.I.D. considered any new initiatives or the reprogramming of funds to ease tensions and promote understanding in the region?

AMB. WOODS: A.I.D. has already, with the Congress' concurrence, reprogrammed funds from the Syria Termination Account to augment FY 1988 funds for the direct West Bank and Gaza program and will soon seek concurrence for an additional reprogramming from a terminated project in Israel. These funds will support new and ongoing PVO activities and a limited project to support the Palestinian private sector.

I believe that new aid initiatives could be developed to ease tensions and promote understanding in the region. However, these initiatives cannot be undertaken in the absence of progress toward resolving the underlying causes of the Israeli-Palestinian dispute. Until then, we will continue to focus our efforts on programs that can improve conditions for Palestinians, including those which promote economic development.

## MOZAMBIQUE -- SECTION 590 REPORTING REQUIREMENTS

SENATOR INOUYE: Section 590 of the FY 1988 Foreign Operations legislation requires that U.S. aid funds not be made available to Mozambique unless the President certifies that certain changes in that Government's policy are made.

Has the Government of Mozambique entered into a dialogue with the Catholic Church regarding the return of church property?

AMB. WOODS: Section 590 requires that U.S. aid funds not be made available to Mozambique until the President reports on certain issues regarding Mozambique's policy. This report will be submitted shortly by the Secretary of State on behalf of the President.

The Government and Church have had an ongoing dialogue on the return of Church property and the resumption of various religious activities and institutions. Some Church properties have already been returned, and the Government has indicated it is prepared to return others once alternative arrangements can be found for the present occupants. In general, there appears to have been a major improvement in church-state relations in Mozambique over the last several years.

## MOZAMBIQUE: EXPROPRIATION OF PRIVATE PROPERTY

SENATOR INOUYE: Has the Government of Mozambique taken steps to assure against future expropriation of private property without due process and just compensation?

AMB. WOODS: Private property is guaranteed under the Mozambican constitution. Also, foreign investment laws provide specific protections of foreign investment against nationalization except in extraordinary circumstances and with appropriate compensation.

## MOZAMBIQUE: SOVIET AND EASTERN BLOC PERSONNEL

SENATOR INOUYE: Has the number of Soviet and Eastern bloc military and security personnel been reduced?

AMB. WOODS: According to estimates, there has been no major change in the number of Soviet and East bloc military and security personnel since 1984. There seems to have been a shift in these personnel from relatively more senior officers serving as advisors, to more junior officers serving as trainers and instructors.

## A.I.D. ASSISTANCE TO MOZAMBIQUE

SENATOR INOUYE: Is A.I.D. providing assistance to Mozambique? If so, for what purposes?

AMB. WOODS: The purpose of the major portion of our aid to Mozambique is humanitarian -- to avert starvation and relieve the suffering caused by war and drought. This is accomplished through our Title II emergency food aid and OFDA disaster assistance grants which we have been providing since 1984. Another component of our aid to Mozambique, the agricultural development aid to private farmers, has the purposes of helping rebuild the private sector in Mozambique and increasing the supply of food to the urban areas. A third aspect of our assistance, which will begin in FY 1988, is the Title II Section 206 food aid program. The purpose of this program is to achieve a greater development impact from food aid. Specifically, the program will support the Government's efforts to rehabilitate the agricultural sector, food marketing and rural transport through policy reforms and the programming of local currency generations.

### MOZAMBIQUE -- U.S. ASSISTANCE TO RENAMO VICTIMS

SENATOR INOUYE: Estimates are that 100,000 civilian deaths have occurred over that last two years as a result of the attacks by RENAMO, the South Africa-backed rebel movement in Mozambique.

Is the United States providing any assistance to citizens wounded in RENAMO attacks?

AMB. WOODS: The U.S. Government does not have any programs specifically to provide medical assistance to victims of RENAMO attacks. However, these victims do receive assistance from the U.S. through various channels. In the last year, A.I.D. has provided $3.4 million to UNICEF for a program of vital medicines for rural areas of Mozambique, including those affected by RENAMO attacks. A.I.D. has also provided $1.2 million to the International Committee of the Red Cross for medical and nutritional programs for areas which are the most difficult to reach because of the conflict. Finally, A.I.D. and the State Department's Refugee Programs have supported the work of the United Nations High Commissioner for Refugees, League of Red Cross and Red Crescent Societies and other organizations to assist Mozambicans who have fled to neighboring countries to escape RENAMO.

### MOZAMBIQUE -- HUMANITARIAN AND AGRICULTURAL ASSISTANCE

SENATOR INOUYE: Since 1984 the United States has provided over $126.3 million in humanitarian assistance to Mozambique.

What has A.I.D. done to ensure that none of this assistance is used to support the activities of RENAMO or to purchase military equipment on the illicit arms market?

AMB. WOODS: I am confident that none of our aid to Mozambique has been used by RENAMO to purchase arms or otherwise prosecute its war. Most of our humanitarian aid is provided in-kind as food through the Government of Mozambique's relief or food-marketing agencies. Other humanitarian aid is provided through reputable international and non-governmental organizations that maintain accountability for our donations. All of these organizations operate with the permission of the Government of Mozambique.

### MOZAMBIQUE: FOREIGN AID DONORS MEETING

SENATOR INOUYE: Will the United States be participating in the upcoming meeting of foreign aid donors in Maputo?

AMB. WOODS: The United States sent a delegation, including representatives of A.I.D. and the Department of State, to the international donors conference in Maputo on April 26-27. At the conference, the United States pledged $52 million in food aid, $10 million in non-food humanitarian assistance, and $15 million in agricultural development aid.

### MOZAMBIQUE: AGRICULTURAL DEVELOPMENT

SENATOR INOUYE: Will the United States be pledging increased financial assistance toward agricultural development?

AMB. WOODS: This year's U.S. agricultural development aid to private farmers in Mozambique, planned at $15 million, represents a

50 percent increase over last year's level. In addition, our pledge of humanitarian assistance this year includes two new rural rehabilitation activities through American private voluntary organizations which entail agricultural recovery components.

## COOPERATIVENESS OF GOVERNMENT OF MOZAMBIQUE

SENATOR INOUYE: What has been the level of cooperation U.S. humanitarian and development agencies have received from the Marxist Government of Mozambique?

AMB. WOODS: The Government of Mozambique has provided excellent cooperation with the United States on both our humanitarian and development programs. On the humanitarian side, the Mozambican Government has been very responsive to the donors' suggestions on strengthening the management and coordination of the aid effort. Weekly meetings are now held at the working level among the donors, non-governmental organizations and government entities on the emergency aid program. On the development side, the Government has been very supportive of our program to rebuild the private farming sector. Our dealings with Mozambican officials on all aspects of our program have been consistently open, cordial and business-like.

## ETHIOPIA -- AGRICULTURE POLICY REFORM

SENATOR INOUYE: In February, the Marxist Government of Ethiopia announced that it had agreed to decontrol farm prices and reform its agricultural policies in response to Western donor pressure. These changes were expected to free $100 million in development aid from the World Bank and $78 million from the European Community.

What progress has the Government of Ethiopia made in meeting these objectives?

AMB. WOODS: The reform objectives which the donors seek are, essentially: to raise prices paid to the farmer to an equitable level; to minimize forced sales to the government's purchasing agency; to allow free private trade in farm produce; and to make increased amounts of modern agro-inputs available to the independent peasant farmers. The Ethiopian government has actually undertaken to raise prices by about 7 to 8 percent; to cut back on forced sales; and to grant licenses for individuals to deal in farm produce. Foreign exchange shortages have prevented much increase in importation of agro-inputs for the time being. Though these government changes are of the type encouraged by the donors, they fall far short of the changes really needed; and analysts were of the opinion that their effect would be modest. At present, we are unable to discern any progress due to policy reform because of the impact of escalating military struggle on the fragile Ethiopian economy.

## ETHIOPIA -- POLITICAL OBSTRUCTION

SENATOR INOUYE: Within the last month rebel attacks against relief convoys traveling to northern Ethiopia have increased, raising the prospect of widespread famine. Paradoxically, unlike the famine of 1984-85, more than enough food is now in the pipeline to prevent another catastrophe. Politics, not food supply, is the problem we confront today. Is that not true?

AMB. WOODS: At present, open warfare and political obstructionism are equally important problems. Major guerrilla victories have restricted the operations of the relief program which serves the population under Ethiopian government control. At the same time, the Government exacerbated these difficulties by barring foreign relief workers -- essential managers and technicians — from the north. On the other side of the line, only scanty supplies are available through the guerrillas' relief services. We estimate that between 1.5 and 2 million persons in need, formerly receiving at least some commodities, are now without support. So far, efforts to restore the neutral expatriate relief groups -- who might provide food to drought victims without regard to the military situation -- have largely failed.

## AFRICAN FAMINE

SENATOR INOUYE: What efforts are being undertaken by A.I.D. and other donors to reestablish the food lifeline to the Ethiopian provinces of Eritrea and Tigre?

AMB. WOODS: In the north, the Joint Relief Partnership (JRP) and the Relief and Rehabilitation Committee (RRC), which is the official government relief agency, are still distributing food to people in government-controlled areas. The JRP estimates that they are reaching about 700,000 people in Eritrea and about 150,000 in Tigre, including some of the people formerly served by the International Committee of the Red Cross (ICRC). Since there are no expatriates monitoring food distribution at this time, we have no way to verify these figures. We do not have figures on the numbers being reached by the RRC. We have no reason, however, to believe that most people in the areas of the countryside where the guerrillas have seized control are now being reached. Food continues to be trucked to Asmara from the port of Massawa and food is being airlifted into Makelle, now at the rate of 5,000 metric tons (MT) a month. The airlift capacity will be increased to 10,000 MT a month within the next week or so.

We are doing our utmost to restore a neutral expatriate relief worker presence in the north to allow the relief program to work in areas where Ethiopian government personnel dare not travel. Our efforts have included demarches directly to the government, encouragement of other donors (including the Soviet Union) to make independent demarches to the Ethiopian government, and efforts to involve the United Nations in negotiations, all with an eye to returning the neutral relief workers to the northern provinces and to obtain acceptance of the principle (first enunciated by the ICRC) that relief activities operate over "open roads at their own risk."

## DISPLACED PERSONS IN ETHIOPIA

SENATOR INOUYE: Have refugees begun to settle around relief camps as they did in 1984-85? If so, what are the numbers and the rate of increase?

AMB. WOODS: So far, we have not seen displaced persons clustering in relief camps, probably at least partly because the government has strongly discouraged formation of these camps and because people fear they will be recruited into the army or forcibly resettled if they show up. There are some small camps - one in Asmara of about 3,000 people, and one in Makelle with present population of about 160 persons. But these are primarily government workers from small towns recently displaced by the fighting in early April. We have unconfirmed rumors of some population movements within the two northern districts and expect that, unless more food is distributed deeper into the areas, people will begin to gather in search of food in the near future.

## ETHIOPIA -- SOVIET RELIEF FOOD

SENATOR INOUYE: Has the Soviet Union begun to provide its promised 250,000 tons of grain to Ethiopia?

AMB. WOODS: Three Soviet freighters carrying 28,300 tons of grain are arriving in May. We do not yet have a schedule for later shipments

## ETHIOPIA -- FORECASTING THE FAMINE

SENATOR INOUYE: International relief organizations are warning that Ethiopia verges on a famine worse than that of 1984-85. A persistent drought, coupled with an escalation in the country's 27-year civil war, has placed 7 million of Ethiopia's 45 million people in immediate risk of starvation.

How far in advance was the international community able to forecast this famine, and have our forecasting techniques improved since 1984-85?

AMB. WOODS: Our forecasting techniques have improved greatly since 1984-85, in part because of the experience that scientists and technicians gained at that time. The presence of independent private voluntary organization representatives in the field was also significant. In 1984--when the situation was complicated by Ethiopian government unwillingness to allow access to the affected areas -- A.I.D. was patching together individual local reports as late as July and received an informal warning of rainfall problems through government channels only in mid-August. In 1987, we got initial warnings the first week in April; by July, A.I.D. had already made a first emergency response and, by August, the entire donor community was organizing a major effort.

## ETHIOPIA -- DEVELOPMENT VS. DISASTER ASSISTANCE

SENATOR INOUYE: What is the ratio of A.I.D. resources going to long-term agricultural development versus immediate disaster assistance?

AMB. WOODS: Our entire program in Ethiopia is humanitarian assistance; none of it is funded from the Development Assistance account. Under the current provisions of the Foreign Assistance Appropriations Act (the Brooke amendment), A.I.D. is barred from providing economic assistance funds for Ethiopia, whether for agriculture or for other types of development.

## AFRICAN FAMINE

SENATOR INOUYE: In what instances have the countries of the Sahel and East Africa, in conjunction with A.I.D.-funded assistance, managed to achieve self-sufficiency in any basic food commodity over the last ten years?

AMB. WOODS: If we define food self-sufficiency as a situation where a country consistently meets its food needs entirely from its own internal production, then none of the countries in the Sahel or East Africa have attained food self-sufficiency. Our objective, however, is to achieve food self-reliance rather than food self-sufficiency. A country is food self-reliant when it can meet its food needs both through internal production and financing food imports. Financing its food imports requires that it earn foreign exchange by producing and exporting both agricultural and/or non-agricultural products in which it has a comparative advantage.

Producing sufficient quantities of a food commodity to meet domestic demand depends upon the synergistic influence of policies, institutional systems, technology, and a favorable environment, especially rainfall. Some countries have met their own needs for a specific food commodity and, in some cases, have produced an exportable surplus. For example, our assistance to Kenya has resulted in improved varieties and cultural practices for maize production. This has enabled Kenya to meet its requirements for maize in years of normal rainfall. Likewise, in Tanzania our assistance has resulted in developing varieties of maize which have enabled Tanzania to meet its maize requirements in certain years. In Sudan, our assistance to agricultural research produced improved varieties of sorghum which have put Sudan in a position to export sorghum in good years. In Rwanda, our assistance in marketing and our support to the International Tropical Agriculture Center (CIAT) have enabled Rwanda to meet its consumption requirements for beans. Our assistance to the International Potato Center contributed to the improved varieties of potatoes which have enabled Rwanda and Burundi to meet their consumption requirements.

I would like to note that all of these examples are from East Africa. Success to date in the Sahel has been limited. There have been successes in developing improved varieties and cultural practices for maize, sorghum, millet, and cowpeas in virtually all of the Sahelian countries. While producing sufficient quantities in some local areas, overall national requirements, even in good years, have yet to be met. There continues to be significant yearly variations in food production and uneven distribution among income classes, geographic areas, and seasons in both the Sahel and East Africa.

## OBSTACLES TO DEVELOPMENT IN EAST AFRICA AND THE SAHEL

SENATOR INOUYE: To what extent are the obstacles to development in East Africa and the Sahel technical or political in nature? Please explain.

AMB. WOODS: Obstacles to development in the East African and Sahel regions are many. Technical and political constraints are, indeed, severe obstacles to growth. However, countries in these regions also are encountering problems associated with inappropriate economic policies, inadequate development of human resources, adverse climatic conditions, difficulties in penetrating international markets, and a range of economic constraints -- deteriorating terms of trade, limited investment resources, fixed exchange rates, a lack of foreign exchange earnings, and substantial debt burdens.

The relative importance of each of these obstacles to development varies to some extent, of course, from country to country. Political instability, for example, has posed certain difficulties in Chad, Ethiopia, and Burkina Faso. By contrast, the political process in Senegal, Mali, and Tanzania has resulted in fairly stable governments with strong commitments to accelerating development in rural areas.

The kinds of technical obstacles to development being faced in both regions also vary widely. In the agricultural sector, for example, growth is often constrained by the lack of agricultural technologies needed to enable producers in all the different agroecological zones to increase productivity and sustain that increase as well as by the lack of infrastructure (roads, vehicles, storage) required for efficient marketing of commodities produced. In the industrial sector, technical efficiencies of processing equipment (for cotton, rice, and coffee, for instance) are often below desired levels, but lack of credit or investible profits limit innovation or upgrading efforts. In other cases, production capacity limitations are compounded by cost management and market demand problems, e.g., fertilizer production and sales in Mali and Niger. Upgrading of the technical facilities in these cases is only part of the solution.

In short, technical and political obstacles are important factors which impede development in the East African and Sahel regions. They are more constraining in some countries than in others. In all cases, the extent to which they can be efficiently overcome is dependent on the degree of their inter-relatedness to other constraints -- climatic, economic, or managerial.

## DINKA REFUGEE MOVEMENT

SENATOR INOUYE: The refugees in the Sudan are herdsmen and farmers of the Dinka tribe from northern Bahr El-Ghazal province. I understand that the Dinka now have no food in their native region because drought has destroyed their crops and because other tribes, armed by the government, have stolen their cattle.

What has been the response of the Arab League, of neighboring Egypt and the Organization of African Unity to this disaster?

AMB. WOODS: We are unaware of any actions being taken by the Arab League for the displaced in Sudan. However, the Government of Egypt has longstanding relations in the area and has been active in encouraging a political solution in the South. The Organization of African Unity has not made any formal response with regard to the displaced, but the situation is a topic of concern among individual OAU members.

## SUDAN - NEIGHBORING STATES' ASSISTANCE

SENATOR INOUYE: Have they offered to provide any assistance to their Sudanese neighbors?

AMB. WOODS: Neither the Arab League nor the Organization of African Unity, as such, provide assistance to member states; this is a matter of policy for them. However, several Arab nations, including Egypt and Libya (which are also OAU members), Saudi Arabia, and Kuwait provide bilateral economic assistance to the Government of Sudan.

## SUDAN FAMINE DISASTER

SENATOR INOUYE: What are the environmental consequences for Egypt if the land is neglected in Sudan and conditions continue to deteriorate?

AMB. WOODS: Environmental degradation has been going on for some time in the Sudan. A.I.D., through the Reforestation and Antidesertification project, is involved with the Government of Sudan in an attempt to reverse this degradation. If such degradation were to continue unchecked, the effects would tend to be localized in the two countries. The chief water resource in both countries, the Nile River, originates outside Egypt and Sudan. Large effects do occur in water quality and sediment load as a result of vegetation clearance and unchecked erosion in the watersheds of Ethiopia, where the more turbulent Blue Nile River originates. Increased sedimentation at the Aswan Dam could affect longer-term development and power generation for Egypt.

## SUDAN - DEVELOPMENT IMPACT

SENATOR INOUYE: How much has development in the Sudan been set back by recent events?

AMB. WOODS: Development plans for southern Sudan -- the site of the ongoing war and the source of most refugees and internally displaced persons -- were at a standstill even before the recent events. Development is stalled, and further fighting, complicated by drought and insect infestations, has only confirmed this situation.

## "RESULTS"

SENATOR INOUYE: I would like to pay tribute to the work done by the organization "RESULTS" in raising the consciousness of the American people on issues of great humanitarian concern. Two causes which RESULTS has championed in recent years have been the use of social indicators to measure development progress, and the provision of structural adjustment loans to assist countries improve their economies while reducing their balance of payments deficits.

How extensive is A.I.Γ.'s use of social indicators to measure development?

AMB. WOODS: As I indicated earlier, A.I.D. monitors a wide variety of indicators of economic performance and human conditions in developing countries. In doing so, we rely heavily on the data the United Nations system collects on a country basis, using our funds, as well as those of other nations.

By looking broadly at social indicators and at the indicators which measure underlying causes of poverty, we create a balanced picture of how a developing country is doing. It is that balanced picture which serves us best as we try to assist developing countries improve their economic performance and address, in a sustainable way, their health care, educational and other needs.

While we use indicators to develop an overview of how countries are doing, they do not tell us everything we need to know. They may tell us, for example, that agricultural production is low. But we need to go beyond standardized measures, if we are to determine whether poor performance stems from misguided policy, poor transportation and a lack of inputs, or perhaps short-term credit issues. It is this kind of data -- what we might call program level data -- that tells us what kinds of projects and programs of assistance to develop, and whether, once underway, our efforts are making a difference. Because this kind of information is so important we require that our missions collect it as programs and projects are planned, monitored and evaluated.

SENATOR INOUYE: What is your assessment of social indicators such as child mortality, life expectancy, access to safe water, adult literacy and child malnutrition as effective measures of development?

AMB. WOODS: Child mortality, life expectancy, access to safe water, adult literacy and child malnutrition are certainly among the indicators by which development progress can be measured. Improvements in these indicators tend to occur concurrently with, and progress in these areas is both enabled and sustained by, economic growth.

The value and feasibility of using indicators for measuring development depends on a number of things. First, data on the indicators must be available and this is not always the case. Second, reliance on indicators which are not carefully selected can tend to drive programs in a way which is not always the most effective use of resources or the best route to the ultimate goals we seek. For example, an adult literacy target could lead to diversion of resources from basic education to direct adult literacy programs. The result would be neglect of basic education for children in favor of the narrow objective of teaching adults to read. Third, such development indicators really cannot be used to measure the contributions of individual donors since multiple donors are in many A.I.D.-recipient countries and most importantly, the host government is ultimately responsible for progress toward improvement in such goals. Finally, on the positive side, such indicators provide benchmarks for which countries must strive and some evidence of how they are progressing.

SENATOR INOUYE: Are you aware that the World Bank's president, Mr. Barber Conable, is giving consideration to the wider use of social indicators in measuring development?

AMB. WOODS: Yes, we are aware of the Bank's initiatives and are consulting with Bank staff on ways to share data and experience. In at least one country, A.I.D. is actively discussing a joint effort to assist local data collection and analytic capacities.

## ETHIOPIAN REFUGEES IN SUDAN

SENATOR INOUYE: How many refugees have begun to move across the border to the Sudan?

AMB. WOODS: At present the movement of refugees across the border to Sudan has been described as "a trickle" of just a few people every day. However, the United Nations High Commissioner for Refugees has received unconfirmed reports that more are moving toward the border.

SENATOR INOUYE: What kind of cooperation are relief agencies getting from the Government of Sudan in providing for the shelter and feeding of Ethiopian refugees?

AMB. WOODS: The Sudanese government has stated that while it will not welcome what it refers to as "hungry people," it is prepared to welcome "frightened people" or victims of conflict. After the fighting in April, it appears, therefore, that there will be no problem with Eritreans and Tigreans seeking shelter in Sudan. A recent U.S. assessment team estimated that as many as 105,000 new arrivals could be accommodated in five reception centers near the Sudan-Ethiopian border.

## ORGANIZATION OF AFRICAN UNITY

SENATOR INOUYE: What is the Organization of African Unity providing in the way of disaster assistance to the famine victims of Ethiopia and the Sudan?

AMB. WOODS: The Organization of African Unity (OAU), being essentially a political forum for the heads of the African states, is not directly involved in, nor is it capable of providing, disaster assistance. The OAU does attempt, however, through its resolutions and statements, to heighten international awareness and concern for the plight of disaster victims. For operational and practical actions, it turns to international organizations, in particular the United Nations, to mobilize relief programs and coordinate the efforts of the various agencies. In the current situation in Sudan and Ethiopia, the United Nations has the lead to coordinate donor response and the flow of relief supplies.

SENATOR INOUYE: What is the Organization of African Unity providing in the way of longer term development assistance to the drought and famine affected regions of Africa?

AMB. WOOD: The OAU is not an operational development assistance organization, but rather a political forum made up of the Heads of State of African nations. In its annual Assembly of Heads of State and Government, the OAU considers the political and economic problems of Africa and, through its statements and resolutions, makes efforts to mobilize international support to address current problems. For instance, at the twenty-second session of the Assembly in 1987, the OAU established a Permanent Steering Committee to consult with the United Nations and other mutilateral funding agencies and donor organizations on the steps to be taken to implement the United Nations Programs of Action for African Economic Recovery and Development (UNPAAERD) which had just been passed by the United Nations General Assembly Special Session on Africa. Leadership for implementation, however, rests with the United Nations, the United Nations Economic Commission for Africa, the World Bank and International Monetary Fund and, of course, the bilateral donors to actually mobilize the resources required to implement the recovery program.

## THE CONTRIBUTIONS OF HAWAII TO RELIEVING THE AFRICAN FAMINE

SENATOR INOUYE: In recent years A.I.D. has provided grant funding to the University of Hawaii to research the plant, Sesbania. Sesbania is a "green manure" which when grown in conjunction with other food crops provides a low cost, high efficiency means of improving yields.

Has A.I.D. made any effort to apply this new agricultural method (i.e., plant--Sesbania) to Third World development?

AMB. WOODS: A.I.D. is actively involved in promoting the use of Sesbania and other fast-growing, nitrogen-fixing trees, such as Leucaena and Gliricidia, in helping to increase and sustain agricultural production in the Third World, especially in alley-cropping systems. I am submitting to the Committee a booklet on alley cropping.

SENATOR INOUYE: Other species of Sesbania researched at the University of Hawaii have proved promising as sources of gums, pulp fiber, animal fodder, fuelwood, and medicines.

Given the wide potential of this and other tropical and subtropical plant species to assist in reversing the cycle of hunger in the Third World, what priority is A.I.D. giving to this research in program planning over the next five years?

AMB. WOODS: Our Agency is giving high priority to research on these species. A.I.D. has been actively involved in initiating and funding an alley-cropping research network in Africa with the International Institute for Research in Tropical Agriculture in Nigeria, the International Livestock Center for Africa in Ethiopia, and the International Council for Research in Agroforestry in Nairobi. These institutions are collaborating in this research with the University of Hawaii. Further research is needed to exploit the potential of these very promising and versatile plant species. Meanwhile, we are encouraged by preliminary results of alley-cropping trials, which indicate that on certain sites, grain yields have increased by over 1.6 times, and that per-hectare yields of 15-20 tons of fresh prunings (5.0-6.5 tons of dry matter) of wood and fodder have been recorded.

The Alley Cropping booklet is being provided for the record , and will be retained in the subcommittee files.

## PAKISTAN

SENATOR INOUYE: The first phase of Pakistan's On Farm Water Management Program was successfully completed in June 1987. It marked a turning point in the kind of USAID support for the reconstruction of 89,000 watercourses and the improvement of water management techniques throughout the country. I understand that since the program's start over a decade ago, nearly 12,000 water users' associations have been created in the nation's four provinces, 7,500 water courses have been partly lined, and more than 6,700 demonstration plots have been developed.

Assess for this Subcommittee the measurable improvements this extensive project has made in the economic health and quality of life of the citizens of Pakistan.

AMB WOODS: Mr. Chairman, I am pleased to respond to this question since the On Farm Water Management project is one of our most successful projects in Pakistan. This project has contributed directly to improving the economic health and quality of life in Pakistan by increasing the amount of irrigation water which actually reaches farmers, especially those at the end of irrigation canals or watercourses. Since these "tail enders" are usually the most disadvantaged farmers, these poor farmers have benefited the most under this project. These farmers were able to raise cropping intensity from 80 percent to 120 percent, which increased their overall productivity and income. Also, the improved watercourses decreased the amount of time required to irrigate an acre of land and allowed more accurate measurement of amounts of water being distributed.

Finally, I would like to note that the project has funded precision-leveled demonstration plots along the improved watercourses. Yields in these plots increased by 20 percent, and this improved system is now being applied in other areas of Pakistan.

## A.I.D. COMPLIANCE WITH GAO REPORT RECOMMENDATIONS

SENATOR INOUYE: Please document A.I.D.'s compliance with the recommendations outlined in the following reports issued by the General Accounting Office (GAO) since 1985. Indicate the status of compliance, if and how the Agency has encountered difficulty in meeting the GAO recommendations and how compliance was achieved.

AMB. WOODS: The status of A.I.D.'s compliance with these reports is as follows:

Travel Practices: Use of Airline Bonus Coupons and Privately Funded Travel by A.I.D. Employees NSIAD-86-26, 11/29/85

Status: Bills for collection were issued to four A.I.D. employees in 1986 as a result of the GAO audit. A fifth employee was issued a bill for collection in 1987 following a second GAO audit. All of the individuals appealed this decision to the Comptroller General. The Comptroller General denied the appeals on November 16, 1987. Consequently, we are reissuing bills for collection to each employee. One employee has already reimbursed the Agency.

Caribbean Basin Initiative: Need for More Reliable Data on Business Activity Resulting from the Initiative NSIAD-86-201BR, 08/29/86

Status: The GAO Report indicated that Department of Commerce data on business activity under the Caribbean Basin Initiative (CBI) was not reliable. At the request of the Subcommittee on Oversight, the Interagency Task Force for the CBI agreed to conduct a new survey. Responsibility to carry out the survey was delegated to the Caribbean Basin Division in the Department of Commerce. A.I.D. made available $16,000 through a Participating Agency Service Agreement (PASA) with the Commerce Department.

The purpose of the survey was to identify export earning business activity taking place in CBI countries in services and goods-producing industries according to specific categories and other strict criteria. In September 1987, special CBI teams began collecting data from the 22 CBI designated countries and an extensive verification procedure was initiated. Five Commerce Department employees went to the field to aid in verification of the reported data.

A draft final report is expected to be submitted at the end of May 1988 to the Inter-Agency CBI Task Force. After review and clearance, the new report will be submitted by the Commerce Department to the Oversight Subcommittee of the Ways and Means Committee.

Foreign Aid: Improvement Needed in Loan Reporting and Administration NSIAD-87-2, 10/23/86

Recommendation: The Administrator, A.I.D., should initiate negotiations with countries which received concessional loans from predecessor agencies, or which have achieved high economic development, and seek agreements on early repayment.

Status: We have examined the economic and financial circumstances of the less developed countries that are indebted to the U.S. Government and found that none of them meets the criteria for an acceleration in their loan repayments.

Recommendation: The Administrator, A.I.D., should describe, in the annual report to Congress on foreign assistance, the efforts made to accelerate loan repayments pursuant to requirements of section 127 of the Foreign Assistance Act of 1961.

Status: Our annual report on this subject, which is not a part of the Development Issues Report, has indicated that there are no countries that meet the criteria for accelerated repayments. Therefore, there is no action necessary on our part.

Recommendation: The Administrator, A.I.D., should revise A.I.D. manual orders to make clear that no Foreign Assistance Act loan, except from the private sector revolving loan fund, whether to a public or private borrower, may be written off.

Status: We have never written off a loan. The statute is quite clear on this matter. Although I feel that our handbooks adequately address this issue, I will have this guidance reviewed to determine if any necessary revisions are required.

Recommendation: The Chairman, Development Coordination Committee (DCC), should provide more information in reporting debt rescheduling activities to Congress, specifically: (1) notifications of proposed reschedulings should state clearly why the rescheduling is necessary and in the U.S. interest; and (2) reports of completed official debt reschedulings should present a more complete picture of how agreements affect U.S. financial interests, including how much and how many times debts owed to U.S. agencies have been rescheduled and the prospects for collecting rescheduled receivables.

Status: The Departments of State and Treasury are primarily responsible for the preparation and distribution of country analytical papers that provide the basis for negotiating recheduling of foreign debts due to U.S. Government agencies. Nevertheless, A.I.D., as a member of the National Advisory Council on International Monetary and Financial Policies, which must clear these position papers, will take the initiative in seeing that they are prepared in a manner that clearly sets forth why respective rescheculings are necessary and in the U.S. interest, and so that relevant parts can be distributed to the Congress. A similar undertaking will be advanced, designed to provide more information on how respective debt rescheduling agreements affect U.S. financial interests, when responding to the requirements of Section 603 of the International Development and Food Assistance Act of 1978. That Section requires transmission of bilateral agreements to the appropriate congressional committees no less than 30 days prior to their entry into force.

Recommendation: Pursuant to the requirements of section 634 of the act, the Administrator, A.I.D., as DCC Chairman, should revise the annual congressional report and accompanying annexes as may be necessary to show clearly the amounts of foreign assistance loan authorizations, disbursements, rescheduled debt, repayments, and balances outstanding, by program and country.

Status: The annexes included in the annual report were designed largely to show specific information required by statute. However, I agree with the intent of this recommendation and I will continue to work with the other agencies toward improving the presentation of loan data.

Recommendation: Pursuant to the requirements of section 634 of the act, the Administrator, A.I.D., as DCC Chairman, should define the status of repayments, including applicability of aid cut-off sanctions and collectibility of non-current loans, by country.

Status: We have complied with this recommendation. Our report "Status of Loan Agreements," shows how much has been repaid to the U.S. Government. Congressional legislation already defines the criteria for aid cut-off due to non-repayment of loans.

Recommendation: Pursuant to the requirements of section 634 of the act, the Administrator, A.I.D., as DCC Chairman, should disclose the reasons for any significant short-falls in repayments of billed loan principal and interest for the preceding year.

Status: We feel we are already complying with the intent of this recommendation. Our financial management system for loan accounting produces a quarterly report detailing, by country and loan, those amounts of principle and interest that are due and unpaid. Some significant short-falls occur as a result of reschedulings under negotiation by the Paris Club. A country also may choose not to make its scheduled payment for political reasons or because of an inability to meet financial obligations. However, the Foreign Assistance Act includes sanctions under section 620Q and the Brooke Amendment, which are clearly understood by debtor countries and provide significant leverage to encourage regular payments of billed loan principal and interest. The additional requirement to disclose country-specific reasons for short-falls would require additional staff time, which is not available, and would be of marginal utility in improving compliance.

Recommendation: Pursuant to the requirements of section 634 of the act, the Administrator, A.I.D., as DCC Chairman, should ensure consistency with the underlying agency loan records.

Status: We have complied with this recommendation. The "U.S. Overseas Loans and Grants" publication has been reconciled to the Agency's underlying loan records and reports.

Recommendation: Pursuant to the requirements of section 634 of the act, the Administrator, A.I.D., as DCC Chairman, should meet the required February 1 reporting deadline.

Status: The Congressional deadline for this report is very difficult to meet. Some of the data required in the report is operating year budget data that has simply not been available for analysis in time to meet the due date. Moreover, it is a very staff-intensive report for us to produce which competes with other demands, including the Congressional Presentation which is also due at that time. It also requires the cooperation of several agencies in preparing, clearing, modifying, and reclearing the various sections.

Recommendation: The Administrator, A.I.D., should revise the U.S. Overseas Loans and Grants report to provide certain information and ensure that the data reported in this book is consistent with other loan records and reports submitted to Congress by other executive agencies.

Status: Our reports on financial loan activity and the "U.S. Overseas Loans and Grants' have been reconciled. We will continue to work with the other agencies to ensure the continued presentation of consistent loan data.

Recommendation: The Administrator, A.I.D., should prepare and submit to Congress an annual loan program summary, consisting of financial statements, program data, and loan information by country, which adequately discloses the condition and collectibility of loan receivables and operating results of A.I.D. lending activity.

Status: We have already stated our position on this point in our comments and response to the draft and final audit reports. We feel that our current reports adequately disclose our loan portfolio. To restate our position, the Office of Financial Management is currently set up to meet the requirements of the Office of Management and Budget and the Departments of Treasury and Commerce. To add financial statements which are costly to produce would provide little benefit to anyone interested in a country's financial condition or for evaluating a project activity. Conditions relating to collectibility of our loans continually change; there are political and economic changes within the country and Paris Club rescheduling agreements to mention only a few. The Office of Financial Management is continuing to implement a new automated financial management system with the long-range objective of providing a consolidated financial statement for the Agency. The one exception for us is the private sector revolving loan fund which is operated like a non-government financial institution or bank, and financial statements, based on generally accepted accounting principles, are produced.

Travel Practices: Private Funding of A.I.D. Employees' Travel NSIAD-87-92, 03/12/87.

Status: The Agency has fully complied with the recommendations of the GAO report on private funding of A.I.D. employees' travel. A.I.D. issued a general notice to all employees and amended its travel regulations to require bureaus and offices to advise the Office of the General Counsel if the organization offering to pay travel expenses is doing, or seeking to do, business with the traveler's office.

Foreign Aid: Impact of Overseas Private Investment Corporation Activities on U.S. Employment NSIAD-87-109, 05/05/87.

Status: The Overseas Private Investment Corporation (OPIC) responded in some detail to the recommendations in the report and forwarded the response to the Senate Governmental Affairs Committee and the House Government Operations Committee on July 17, 1987. The conclusion of that response stated as follows:

"Although OPIC appreciates the time and effort that the GAO has expended on this report, OPIC respectfully disagrees with many of the GAO's main findings and conclusions. OPIC believes that the GAO's criticism of certain aspects of OPIC's reporting to Congress is unfounded because the GAO failed to take into account the complex economic realities of OPIC's projects. OPIC takes great comfort in the fact that, despite the exhaustive review conducted by the GAO, the report does not identify a single project where U.S. job losses actually occurred. For this reason, OPIC believes that adoption of the report's primary recommendations would distort OPIC's reporting of the actual effects of its projects on the U.S. economy and would be a disservice to the Congress. OPIC is, however, already implementing some of the procedural recommendations made by the GAO for performing sectoral analyses and project monitoring, and OPIC intends to continually refine and improve upon those procedures."

The complete response is being provided for the record:

OVERSEAS PRIVATE INVESTMENT CORPORATION
WASHINGTON, D.C. 20527, U.S.A.

OFFICE OF THE
PRESIDENT

July 17, 1987

Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Glenn:

Attached is OPIC's response to the May 1987 report issued by the United States General Accounting Office (GAO) entitled "FOREIGN AID: Impact of Overseas Private Investment Corporation Activities on U.S. Employment" (GAO/NSIAD-87-109).

OPIC's attached response is presented in an "ASSERTION" (by the GAO) and "RESPONSE" (by OPIC) format. This format is not intended to be adversarial, rather it is designed to facilitate clear understanding by Congress of OPIC's reaction to specific GAO statements. We have tried to view the GAO criticisms in as constructive a manner as possible and will make every effort to glean elements from that report that will improve our operations in the future.

As you may know, the GAO report was prepared pursuant to the provisions of Public Law 99-204 which required GAO to determine the impact of OPIC's activities on employment in the United States. The GAO's cover letter to the report, dated May 5, 1987, asserts that its "report responds to the legislative requirement." However, it is OPIC's opinion that it does not. The GAO report appears to concentrate on critiquing the procedures OPIC employs in carrying out its U.S. effects analyses, and speculates about the "potential effect" that some OPIC projects might have. It is noteworthy to point out, however, that the report contains no factual findings concerning the actual impact on U.S. employment of OPIC activities.

OPIC would also like to respectfully disagree with the GAO statement that the Corporation has been "overly optimistic" in its annual reporting to the Congress. This charge appears to be based entirely on the assumption that trade data are the only accurate measure of the effects of an OPIC-assisted investment on the U.S. economy. This hypothesis is, we believe, flawed. In our view, it is questionable economic analysis to isolate one factor--project trade flows--and claim that this is the "direct" effect which OPIC projects will have on employment.

As you may know, OPIC made every effort to ensure that the GAO's study was as thorough as possible. We provided them unlimited access to OPIC files; they mailed questionnaires to 109 OPIC projects; they visited (and, in some instances, audited) 33 different projects. It is of particular importance, then, to note that during their examination, the GAO did not uncover a single instance of OPIC assistance to a "runaway" U.S. investor, or any other instance in which an OPIC-assisted investment had a negative effect on U.S. employment. OPIC is further gratified by the GAO statement (page 28 of their report) that they were unable to find any OPIC economic analysis which resulted in approval of a project harmful to the economy of the United States.

Although, as we have mentioned, OPIC disagrees with the appropriateness of the GAO's analytic methodology, we have accepted some of the GAO's procedural recommendations for carrying out sectoral analyses and conducting project monitoring. For example, we have already instituted several procedural changes to document more fully the sources of information on which we rely in carrying out our analyses to leave a better "audit trail."

Finally, as you know, OPIC itself is obliged by law to conduct an analysis of the effect of its programs on the U.S. economy and employment. This major study, which is being conducted by a major respected outside auditing firm and is larger and much more comprehensive than the GAO's, is now under way and is scheduled for completion by year-end. Before drawing conclusions regarding the actual effect of OPIC's projects on U.S. employment, we would suggest a careful review of this independent study when it is submitted in December.

Sincerely,

Craig A. Nalen

Enclosure

cc: Honorable Claiborne Pell

OVERSEAS PRIVATE INVESTMENT CORPORATION
WASHINGTON, D.C. 20527, U.S.A.

OFFICE OF THE
PRESIDENT

July 17, 1987

Honorable Jack Brooks
Chairman
Committee on Governmental Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Brooks:

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Sincerely,

Craig A. Nalen

Enclosure

cc: Honorable Dante B. Fascell

# OPIC'S RESPONSE TO GAO REPORT
# GAO/NSIAD-87-109
# FOREIGN AID: Impact of Overseas Private Investment Corporation Activities on U.S. Employment
# DATED MAY 1987

OPIC's response to the GAO report is divided into five sections. The first deals with the auditor's allegations concerning OPIC's analytic methodology and also the issue of whether OPIC projects have had an adverse impact on the United States' economy. The assertions contained in the GAO report are each assessed individually. This section has deliberately been kept brief, however, because many of these questions have also been addressed by Arthur Young in a separate report, which will be forwarded shortly. The second major section of OPIC's response addresses the alleged deficiencies in the Corporation's screening practices. The third section contains OPIC's comments on issues the auditors raised concerning OPIC's monitoring program. The fourth deals with a few miscellaneous contentions of the GAO report. The last section contains OPIC's formal responses to the GAO's recommendations.

## I. OPIC's Analytic and Reporting Methodology.

The GAO report alleges that OPIC's methods for analyzing its projects need to be improved. The report also asserts that OPIC's descriptions of its activities in its annual reports to Congress are overly optimistic. This section contains OPIC's response to those specific assertions as they appear in the GAO report.

ASSERTION (p. 2, 40, 52)

> Some OPIC projects have direct negative impacts on U.S. trade and potentially negative impacts on American employment.

RESPONSE

The GAO claims that 20 of its 33 case study projects should have been expected to generate a negative U.S. trade flow and a "direct" negative effect on U.S. employment, and that 15 projects which were still operating in 1985 had a net potentially negative "direct" effect on employment of about 2,100 employee-years. These statements, however, are based on a faulty methodology which the GAO uses to calculate the "direct" effects of OPIC-assisted projects. The GAO determines a project's U.S. economic impact by calculating the net trade flows of projects without adjusting for any factors which would offset these trade flows. The GAO assumption is thus that all exports to the U.S. emanating from OPIC-assisted projects are incremental, and that these exports result in a concomitant loss of jobs for U.S. workers. This is an illogical assumption. In the simplest counter-example, a project exporting coffee beans and bananas to the United States will not cause unemployment among U.S. coffee or banana growers because there essentially are none.

OPIC believes that it is erroneous to try to determine the impact of OPIC projects on the U.S. economy by using the GAO's proposed methodology since it does not give due consideration to the overall economic environment in which the projects occur nor to the facts of the particular case in question. In many cases, it is reasonable to expect that project exports to the United States are replacing exports from other countries, or that other foreign investors would undertake projects absent the proposed project. For example, a parent company in the

United States may be replacing its imports from Japan with imports from a project in the Philippines. OPIC's judicious consideration of these underlying economic realities in estimating a project's effects is warranted.

In response to OPIC's earlier comments in December 1986, the GAO has modified its report to state that its estimate that 2,100 employee-years of U.S. labor would be lost as a result of the 57 projects it examined "represent the potential effect on employment of the projects." (p. 45) The GAO also states that "further analysis has to be done to determine whether the projects have actually resulted in job losses." (p. 49) However, it has found no evidence that OPIC-assisted projects have resulted in a negative U.S. employment effect, despite the fact that it had all information necessary to make such a determination. The GAO suggests that Trade Adjustment Assistance (TAA) data showing actual job losses indicate that potential employment losses from OPIC-assisted projects "might have contributed to real job losses."(p. 48) However, this is purely conjecture and the suggestion of such cannot demonstrate that OPIC's methodology is insufficient. That the GAO is unable to demonstrate a correlation between "potential" and "actual" losses renders its criticisms questionable and is likely due to the fact that no such relationship exists.

The GAO's calculation of a potential loss of 2,100 employee-years of U.S. labor is largely predicated on a single project involving the construction of a pipeline across the Isthmus of Panama to transport Alaskan crude oil to various East Coast refineries. Again, the 2,000 plus employee-years job loss figure is derived by simply converting the dollar "U.S. import" numbers to man-years of labor. As a matter of common sense it is unreasonable to assume that American oil transported from Alaska on U.S. ships, sent through a U.S.-owned pipeline, picked up by other American vessels on the Atlantic side and thereafter delivered to U.S. ports is likely to cause American unemployment. Yet this project is at the root of the GAO's contention that potentially hundreds of American jobs were lost.

OPIC representatives at the time they reviewed the draft report in December informed the auditors that this finding did not make sense. The weak explanation the GAO offered in defense of the proposition is found on page 47 of the audit report. It discusses jobs allegedly lost in the shipping industry as a result of vessels not sailing through the Panama Canal. We find this argument implausible. By our estimation, utilizing the GAO gathered data, this project had a positive impact on U.S. employment of approximately 150 employee-years in 1985 and its initial procurement generates approximately 2,000 person-years of employment.

Despite all the GAO's references to potential negative effects and job losses that may be related to OPIC-assisted projects, the fundamental conclusion of the auditors is that they did not "isolate problems with specific sectoral analyses resulting in the approval of individual projects that were harmful to the U.S. economy." (p. 28) In other words, the GAO alleges that OPIC's methodology could lead to its assisting projects that would have negative effects on the U.S. economy, but it was unable to find a single instance in which that had actually occurred.

ASSERTION (p. 33)

> OPIC's methodology for computing economic impacts uses the assumption of a hypothetical foreign competitor to justify offsetting adverse trade and employment effects, which

> obscures the direct effects of these projects and results in overly optimistic reports to Congress.

RESPONSE

Hypothetical alternatives are utilized by OPIC to offset "direct" negative effects of some proposed projects rarely and only when such reasoning is fully justified. Because projects cannot be analyzed in a vacuum, OPIC believes it to be entirely appropriate to consider alternatives that might occur in the event the proposed project does not materialize. Contrary to the GAO's contention, such a procedure does not obscure the direct effects of a project; rather, it presents a more accurate and comprehensive context in which to view its impact. In four of the 33 cases reviewed by the GAO, OPIC had information which led the Corporation reasonably to believe that a foreign competitor was poised to take advantage of an investment opportunity if an American firm did not make the investment in question. Under these circumstances, OPIC approved the project believing that the better choice would be to assist an American firm to make the investment--thus providing some benefits to the U.S. economy. OPIC stands by its judgments. OPIC freely shared with the GAO the specific basis on which it made these judgments for each project. It is noteworthy that the GAO has objected in general to this procedure but cited no particular instance where such an OPIC judgment was inappropriate or misleading.

ASSERTION (p. 38)

> OPIC's methodology obscures the direct effects on employment by combining project effects on employment resulting from start-up procurement with those resulting from annual operating procurement.

RESPONSE

OPIC acknowledges that its reports combine the effects on U.S. employment resulting from start-up procurement with those resulting from annual operating procurement. However, this is in no way intended to obscure the effects of a project. Instead, it is a combination of various pieces of data, done for the sake of brevity. OPIC has been straightforward in its presentation of this data; its annual and development reports to Congress clearly point out that its U.S. effects estimate (the net effect on the U.S. economy over the first five years of the project) includes both initial and ongoing procurement, as well as imports into the United States from the project. Many of the projects which OPIC assists have different levels of U.S. procurement and sales during each of the first five years of operation. However, OPIC does not report figures for each year, as it believes that providing such masses of data to Congress would be counterproductive. A reader can more accurately and readily consider and compare one U.S. effects estimate for each project than multiple numbers for each project.

ASSERTION (p. 39)

> OPIC's methodology obscures the direct effects on employment by failing to consider the effects of indirect imports.

RESPONSE

The total effects of the indirect exports from OPIC-assisted projects examined by the GAO were generally quite small. For the 57 projects studied by the GAO, indirect sales to the United States corresponded to less than 5% of direct sales.

OPIC's FY 1985 legislation requires the Corporation to gather information and report on the final destination of products produced by OPIC-supported projects. OPIC has, therefore, been obtaining this information for the past year to comply with this statute. The problem--such as it is--noted by the GAO should no longer be a concern and the current OPIC practice in conformity with the 1985 legislation should be noted.

ASSERTION (p. 39)

> OPIC's methodology obscures the direct effects on employment by using inappropriate labor-output per worker ratios to convert the value of project-connected imports into employee-years of U.S. employment.

RESPONSE

This is a very narrow technical critique by the GAO. In its reports to Congress, OPIC, where appropriate, does tend to use general manufacturing or all-industry labor output ratios for exports to the United States generated by its projects. OPIC could theoretically fine tune its calculation and apply a different labor-output ratio to each piece of machinery and each different type of production input sourced in the United States by the projects. This, however, would be extremely time consuming and cost-ineffective and would be of marginal usefulness to OPIC or to Congress. Very often, because purchases from or sales to the United States fall into a number of sectors, it is necessary to use a labor-output ratio which represents the all-industry average.

OPIC analysts now use ratios which are as specific as possible. OPIC is currently considering a change in procedure to calculate the best estimate of projected employment effects from a project at the time the sectoral analysis is performed. However, OPIC believes that its previous reporting to Congress was essentially accurate, that any errors were as likely to be negative as positive, and that the magnitude of any such errors was minimal.

## II. Project Screening.

In its report the GAO has made a number of recommendations concerning OPIC's initial project screening procedures and policies. Each of these specific recommendations is discussed below.

ASSERTION (pp. 4, 16, 19, 28)

> OPIC has not developed step-by-step "formal" guidance for performing sectoral analyses.

RESPONSE

As noted by the GAO, OPIC has prepared written informal guidelines, which are provided to all interns and new Development Office employees, which outline the several steps involved in carrying out sectoral analyses. These guidelines are intended as an introduction to the evaluation of projects for adverse U.S. economic effects. In all instances, however, these guidelines are supplemented by intensive "hands-on" training provided by an Office Director who works closely with both new employees and interns during the initial months of their employment. Moreover, this Director has always reviewed all sectoral analyses performed by staff members; his work, in turn, in all sensitive cases is reviewed by another director or his supervisor.

OPIC is not a large organization (approximately 65 professional employees) and like many private businesses, prefers to substitute personal guidance for detailed and cumbersome bureaucratic procedures and written guidelines. Given the complex nature of the economic analyses that must be undertaken and tailored to each project, OPIC is of the opinion that this approach makes sense. There are few "boilerplate" analyses; rather each analysis is based on the unique relationship between a proposed project and the potentially affected sectors. There is no possible set of guidelines which can cover all the questions which must be asked and all the sources of information to be explored. This can only be learned by experience, and OPIC believes that adequate and responsible supervision is the key to this process.

It is crucial to note that, on page 28 of the GAO report, the GAO has admitted that "we agree that we did not isolate problems with specific sectoral analyses resulting in the approval of individual projects that were harmful to the U.S. economy." Thus the absence of formal as opposed to informal guidelines has admittedly not resulted in OPIC's approving projects it should not have. We believe that the distinction between "formal" and "informal" written guidelines is trivial, especially since the GAO found no fault with the existing informal guidelines. Given the care with which each analysis must be tailored to the specific project involved, it is far preferable to rely on close supervision rather than "formal" guidelines that would either be extremely cumbersome or virtually useless.

ASSERTION (pp. 4, 16, 24)

> Inadequate documentation of the screening process makes it impossible to determine whether the expected economic effects of projects on the United States are being accurately and systematically analyzed.

RESPONSE

OPIC agrees that its files did not always contain information that might be useful to auditors in carrying out Congressionally directed examinations on the effectiveness of OPIC's review procedures, particularly with respect to names and addresses of people contacted during the course of sectoral analyses. The GAO studied projects which had been approved in the years 1981 through 1983. OPIC moved its offices in 1985 and purged many of its files of "working paper" materials. Thus the available files did not contain the complete working files from all the analyses studied by the GAO auditors. In 1986, OPIC analysts began systematically keeping more extensive records of their contacts and telephone discussions. Thus OPIC can assure Congress that the Corporation now maintains a one or two page summary containing the names and organizations of the people it contacts in carrying out its analyses, and briefly summarizing the nature of the conversations with those officials.

ASSERTION (pp. 4, 16, 20, 22-23, 29, 52)

> OPIC has not routinely contacted key parties in the public and private sectors (such as labor unions, trade associations and Department of Labor) to discuss and obtain input on project proposals. These organizations were

unsure of, could not remember, or specifically denied having contact with OPIC.

RESPONSE

GAO in its audit has recognized that since its last audit "OPIC has increased its frequency of contacts with U.S. Government and some non-government agencies." (p. 29) There have been significant improvements in OPIC's outreach since 1983. During the 1980-83 period investigated by the GAO, OPIC's contact with these organizations was perhaps not as extensive and as routine as is the case today. In spite of the fact that we have found a distinct lack of cooperation on the part of labor organizations in providing information to the Corporation to assist it in carrying out sectoral analyses, we are persisting in our effort to solicit information from as wide a range of sources as possible, and there have been significant improvements in OPIC's outreach since 1983.

It should further be noted that OPIC analysts do not always identify themselves as such on the telephone when contacting some kinds of special interest organizations. OPIC interns may, for example, identify themselves as graduate students (which they are) engaged in research. We have found that this tends to elicit a more balanced and responsive reaction on the part of some special interest groups. Furthermore, to our knowledge, there has been extensive personnel turnover in some of the organizations with which OPIC regularly communicates. Therefore, OPIC is not surprised that some current members of trade associations or unions could not remember being contacted in 1980-83 by OPIC when asked by GAO auditors.

ASSERTION (pp. 4, 16, 20-22, 30, 52)

> OPIC analysts give inadequate attention to Labor Department job-loss (TAA) data in conducting their sectoral analyses. GAO asserts that in eight of the thirty-three cases they studied a significant number of employees from the U.S. parent companies of OPIC-supported projects lost their jobs in the 1976-1986 time period, and further, that petitions had been filed by those employees which involved "the same, similar, or related product lines as those manufactured" under the OPIC projects. The GAO could find no evidence that OPIC "was aware of or considered any of this TAA information."

RESPONSE

In responding to this contention, it is important to note at the outset that the GAO admits that none of the OPIC projects they "reviewed were directly responsible for any...job losses and resulting TAA awards to employees of these parent companies." (p. 22) The reason that the GAO could not establish a connection between the petitions, the resultant job losses, and the OPIC projects is that OPIC analysts had, as prescribed by long-established Corporate procedures, already reviewed these petitions as part of their sectoral review and affirmatively determined that the projects that OPIC was considering for support and the industries affected under the TAA petitions were not related. As part of its customary sectoral analyses procedures, OPIC analysts regularly evaluate Trade Adjustment Assistance information not only related to the parent company, but also with other U.S. producers.

The problem, then, is not with OPIC's procedures; nor is there an issue regarding jobs being lost as a result of OPIC analysts ignoring important Department of Labor information. Rather, if the GAO comments are read closely, it appears that their problem lies with OPIC's documentation of its research (the "evidence") in a way that can later be reviewed by auditors. As noted elsewhere in this response, OPIC has changed its documentation procedures to recount more completely the various steps it takes in the course of its analyses. We assume, therefore, that future auditors of the Corporation will better be able to follow the step-by-step procedures followed by OPIC economic analysts.

With respect to the contention in the report that OPIC was not aware of certain TAA information regarding one of its projects, an explanation is in order. It is true that GAO auditors discovered that several petitions had been filed by workers of a parent company whose recent application for insurance was under consideration, and that OPIC analysts were unaware of this fact. As it turned out, however, these petitions were filed after OPIC had completed its initial analysis--but before OPIC had approved the project. The information discovered by the GAO auditors was reviewed and it was determined that these TAA petitions were not, in fact, relevant to the project.

Lastly, it is not the case that historical TAA petitions are ignored in OPIC's project approval process because (as the GAO report claims OPIC argues) "it is highly unlikely that a prospective project could have lead to lay-offs of workers in the past." (p. 22) This is a garbled version of what an OPIC representative stated to the GAO auditors. In point of fact OPIC regards historical TAA petitions as being highly relevant in determining whether or not an industry is sensitive. What the OPIC representative said was that the job losses documented in past petitions could not have been logically caused by a project that OPIC was considering for future support. This does not mean, of course, that we do not review those petitions as a matter of course to determine the status of a particular industry.

ASSERTION (pp. 16, 19, 20, 29)

> Although OPIC is mandated to screen out projects that are likely to cause "significant" adverse impact on U.S. employment, it has developed no written definition for guidance on what constitutes a "significant" impact. On occasion this lack of definition has led to disagreement between OPIC economic analysts and management.

RESPONSE

OPIC believes that Congress clearly intended to give the Corporation discretion in determining when the harm done by a project is "significant," thus requiring the Corporation to turn down a particular project. OPIC exercises this judgment in good faith. In at least one instance, OPIC turned down a project in a sector which involved the displacement of only three American workers. Each year, OPIC turns down on U.S. employment effects grounds an average of 10 projects formally and rejects several times that many informally. (In FY 1986, 17 projects were formally turned down.) In making the judgment to accept or reject a project, OPIC must constantly deal with the fact that there are vast differences between industries in terms of their sensitivity to imports; and indeed, at different times within the same industry, sensitivity to imports can vary. Given these circumstances, it is impossible to devise a definition of the word "significant" which could cover all, or even most, of the situations encountered in the course of OPIC's analyses. Again, rather than attempt to devise a set of lengthy bureaucratic guidelines, OPIC prefers to analyze each project on its merits. Unless there is a finding that the Corporation has abused the trust that Congress has placed in it, which does not appear in GAO's report, there is no reason to change the existing practice.

To substantiate its contention that the lack of a definition for the word "significant" results in disagreement between OPIC analysts and management, the report cites a single project involving the importation of cut flowers from the Caribbean, which OPIC's Development Office analysts in 1979 recommended turning down because it would have had an adverse impact on one region of the United States. After much discussion within the Corporation, OPIC's President decided that the harm that would occur was minimal and approved the project. (It should be noted that since 1979, no projects recommended for rejection by OPIC's Office of Development have been insured or financed by the Corporation.) Subsequent to this decision, the same investor sought OPIC assistance for an expansion of the project. Analysis of the effect of the original project plus the expansion led to the conclusion that on a cumulative basis significant harm would result. OPIC assistance was, consequently, denied.

In short, there is no evidence that the absence of a definition of the word "significant" has created a contentious situation between OPIC economic analysts and Corporate management. It is further submitted that any reasonable definition (i.e., any definition which is not entirely mechanical) will always leave room for good faith judgments to be made, and therefore provide, at least hypothetically, a basis for disagreement. Thus if the issue is to be framed solely in terms of avoiding even the potential for disagreement between management and OPIC's economists, the solution will not be found in attempting to define the word "significant."

ASSERTION (p. 19)

> According to a 1978 consultant's report, OPIC has left the term "significant" undefined in order to permit some latitude for projects with marginally adverse U.S. effects to be counter-balanced by those having strong benefits to host country development.

RESPONSE

Neither the legislative history of OPIC's statute, OPIC's Board of Directors nor OPIC management have ever permitted trade-offs to be made between the development and U.S. effects of its projects, and OPIC has never engaged in this practice. The GAO report does not cite any instance where this has occurred. OPIC pointed this out to GAO representatives in its December response to a draft of this GAO report and requested that the GAO clarify in its final report that "this is not, nor has it been, an OPIC practice." Since the GAO is not asserting that it found that OPIC has ever engaged in this kind of impermissible trade-off, it is difficult to understand why it continues to repeat this unfounded allegation in its report.

ASSERTION (pp. 16, 20, 29)

> Although guidance exists concerning the evaluation of some import-sensitive industries (textiles and certain agribusiness projects), OPIC has not developed similar guidance for other import-sensitive industries, principally electronics.

RESPONSE

As noted on page 29 of the GAO's report, OPIC and the GAO substantially disagree over the necessity for comprehensive guidelines to govern sectoral analyses in the electronic sector. OPIC believes that it is neither feasible nor desirable to attempt to prepare general guidelines for electronics projects because, unlike the situation which exists in the agro-industry and textile sectors--which are essentially static with well-defined, traditional products--the electronics industry is characterized by rapid change. To comply with its statutory responsibility to avoid harm to U.S. industries and employment, when confronted by a questionable electronics project, or with a number of proposed projects in a particular sub-sector (such as semiconductors) OPIC has traditionally sought the opinions of outside experts. Typically, these consultants provide the Corporation with a comprehensive analysis of the industry as it exists at the time the OPIC analysis is being performed, and also provide forecasts of future trends. Using its own internal expertise and this very specific and current outside expertise, OPIC then makes the judgment required by its statute. Given the rapidity of change in the electronics industry this is the preferable and, for that matter, the only feasible approach.

## III. Project Monitoring

The GAO report contains a number of assertions about the way in which the Corporation carries out its project monitoring function. These assertions are addressed in detail in the following section.

ASSERTION (pp. 4, 24, 25)

> The information contained in OPIC's reports to Congress does not match the actual monitoring data obtained from investors, and cannot be reconciled with information given by investors at the time of application. There is little, if any, documentation explaining differences between these three sets of numbers, and data changes favorable to OPIC are made without explanation. OPIC did not comment on this issue in its formal response.

RESPONSE

It would appear that the GAO has not carefully read its own report. Appendix III, page 8 does contain OPIC's formal response to this aspect of the GAO's report. Moreover, OPIC treated this matter at length in an earlier seventy-page draft response to the GAO's November 1986 draft of its report. The following is an excerpt from that earlier response. (OPIC had shortened its earlier response for inclusion in Appendix III, to the GAO report.)

"A more general point with respect to the GAO's assertion needs to be made. Projects often change between the time of their inception (since investors are obliged very early in the process to submit a registration and application for insurance to OPIC) and the time that they are actually implemented, which is often a year or two later. From that point until a project is monitored by OPIC another few years may elapse, during which time--because of economic or marketing factors (among other reasons)--the project may change even further. OPIC anticipates that these changes will occur and seeks in every instance to account for, and reconcile, differences between the information initially provided in the application and what is discovered during site visits.

"The task of data reconciliation is begun by staff performing the monitoring on site while speaking with project representatives. OPIC staff members request explanations from overseas company employees of why projects have not developed as anticipated, and these explanations are entered on the project monitoring form. In those instances where OPIC feels that the explanation provided is inadequate, OPIC officers themselves undertake to obtain a satisfactory reconciliation of the data. In all instances, the monitoring form contains written notations explaining differences in data and how reconciliations are effected.

"As a result of the care which OPIC takes, OPIC's chief project monitoring officer was able in all twenty of the cases which the GAO investigated to explain the data differences. There was one exception in one of those cases involving a single question in a lengthy questionnaire--literally one out of 900 entries--where a reconciliation between two different numbers had been made, but a notation explaining the reconciliation was inadvertently omitted. Neither the staff member who performed the monitoring nor the Development monitoring officer could recall that particular piece of information. OPIC does not deem this to be a serious oversight or omission, and does not believe that this single oversight justifies the initiation of a cumbersome 'record keeping system.'"

To the extent that a problem exists it would appear to be one of "auditability" more than anything else. That is to say, the auditors would be happier if the various reconciliations that are made were reduced to memo form so that they would not have to try to decipher hand-written notations on monitoring forms. There probably is some benefit associated with better record keeping and the preparation of a somewhat clearer "audit trail." In the future, therefore, OPIC will keep more careful records on the reconciliation process between the application, monitoring and Congressional reporting data.

ASSERTION (pp. 4, 24, 26)

> No formal system exists to feed monitoring results back into OPIC's decision-making process for screening new projects.

RESPONSE

In OPIC's lengthier, December response to the GAO's draft report, it was noted that since the monitoring and screening function are both carried out within the very small Office of Development, "feedback" regularly occurs between the staffs involved in these functions. GAO auditors were informed in general terms of examples where this had occurred. They were told, for example, of an instance involving a U.S. effects analysis where the results of a project monitoring visit were utilized in considering an application for the expansion of the same factory. The information discovered by the monitoring officer had an extremely important bearing on the sectoral analysis that was undertaken. The monitoring of this investment confirmed that the investor was producing products for export to the United States in the same quantities and categories as that which was originally relied upon in determining that the project would not cause significant harm to the United States. The process involved not only on-site monitoring, but also verification of the imports by the U.S. Customs Service. The results lent credence to the investor's representations involving the expansion of the project's output.

In addition, OPIC has found project monitoring exceptionally useful in carrying out its environmental responsibilities. For example, one project monitoring trip revealed that an important Middle Eastern country had extremely weak and poorly enforced environmental laws. OPIC has insured several projects in that nation, some of which are environmentally sensitive. As a result of the monitoring trip, OPIC's environmental officer was alerted to the situation, and therefore was able to take measures to ensure that new OPIC-supported projects in that country conform either to World Bank or U.S. environmental standards.

Nevertheless, the exercise which OPIC is now going through to prepare its own report to Congress on the U.S. effects of its projects suggests that certain improvements can be made by feeding the results of monitoring back into the project screening process. Particularly valuable in this regard are the "resectoral" analyses that OPIC is now completing based on the information obtained during site visits. In these analyses, OPIC uses the data which it obtains to re-analyze the U.S. effects of a particular project based on its actual operational results. These results are then compared with the projections contained in OPIC's project screening document--the "sectoral analysis." Among other things, the post hoc analyses give valuable insights into the validity of OPIC's original project screening procedures. Because the Corporation has found this exercise so useful, it is considering the incorporation of this method of operation into the project monitoring function. This clearly will constitute a superior "formal" feedback mechanism.

ASSERTION (pp. 4, 24, 27, 31, 44, 53)

> OPIC has not determined the appropriateness of and circumstances for discontinuing assistance to future projects whose operations are found to have significantly adverse impacts on the U.S. economy. Many OPIC projects have changed their product lines or methods of operation after having received OPIC insurance.

RESPONSE

At the outset, it must be observed that the GAO has framed an entirely hypothetical issue. Nowhere in the GAO report is there evidence of any OPIC project which, because of changes in product lines or methods of operation, has resulted in a significantly adverse impact on the U.S. economy. Or, as admitted by the GAO, "we agree that we did not isolate problems with specific sectoral analyses resulting in the approval of individual projects that were harmful to the U.S. economy." (p. 28)

That having been said, it may be of interest to the Congress to explore the theoretical issue raised by the GAO. As discussed below it is our view that, at least implicitly, OPIC has made the determination called for by the auditors.

All OPIC insurance contracts contain provisions similar to the following clauses (which are quoted from OPIC's new "plain language" contracts):

> "Section 9.01.1--Representations and project execution. The Investor understands that OPIC has issued this contract based on statutory policy goals...as well as underwriting considerations. All statements made by the Investor to OPIC in connection with this contract are true and complete, and the investment and the project shall be carried out as described."

Should the Investor fail to abide by this covenant it is subject to the following penalty under the terms of the contract:

> Section 9.02--"Default. Material breach or misrepresentation by the Investor shall constitute default, and OPIC may:
>
> (a) refuse to make payments to the Investor;
> (b) recover payments made; or
> (c) terminate this contract effective as of the date of the breach by giving notice to the Investor."

An investment risks running afoul of these provisions if its nature changes materially, (e.g., should significantly different items than stated in the application be produced, considerably more product than that represented in the request for insurance be manufactured, or should the product be marketed in countries or regions different from those initially disclosed to OPIC.)

Any of these circumstances could constitute a breach of the representation that the project would be carried out as described and thus OPIC could terminate the contract or, perhaps worse from the investor's perspective, deny a claim. Although OPIC monitors projects to assure conformance with representations, it remains incumbent on investors under the provisions of the above-mentioned clauses to obtain OPIC's consent to any important changes in their projects. OPIC strongly prefers this approach, for it in effect compels investors to police their own activities.

It must be added, however, that OPIC's monitoring program has not found any OPIC-supported projects which have changed materially from the project described in connection with the application. Generally speaking, it is OPIC's experience that investors, as a result of the extensive feasibility studies and marketing surveys that are undertaken prior to any normal overseas investment, have firm ideas before their projects are initiated of what will be produced and where it will be sold. This is not to say that the details of a project may not be modified during its development; what does not change is the overall investment plan and the basic structure of the project. Thus, as a practical matter this simply has not been a problem which OPIC has had to address and, to repeat, the GAO has not found that there have been any projects in which material changes occurred which were harmful to the U.S. economy.

An additional point needs to be made. Where appropriate, OPIC will insert into its contracts of insurance specific provisions which may seriously limit an investor's flexibility. For example, in certain agricultural projects OPIC has included in its insurance contracts provisions barring investors from exporting more than 5% of output to the United States.

At any given time OPIC has approximately 900 projects in its portfolio, and it would be impossible, considering the personnel constraints under which the Corporation operates, to continually keep track of the precise status of each project and its continuing relationship to the U.S. economy. Moreover, OPIC does not believe it would be appropriate to do so.

OPIC is, fundamentally, a development agency. It is mandated by law to contribute to the development process by facilitating and encouraging U.S. investment abroad. In order to accomplish this objective the Corporation issues long-term policies covering its insureds against certain political risks. It is vital from a development perspective that investors operate on a long-term basis, and there are also important U.S. foreign policy interests involved in encouraging them to do so. OPIC's insurance policies would essentially become unmarketable if the continuation of coverage were made contingent on unforeseeable economic events, or if investors were obliged to obtain OPIC consent in the making of ordinary business decisions. OPIC believes it should continue to issue long-term political risk insurance recognizing that minor modifications may occur in its projects which could have some unanticipated effects on the U.S. economy in the future. It does so based on its belief that, on the whole, U.S. overseas investment has a beneficial effect on the American economy.

In a May 28, 1987 Wall Street Journal article, Peter Drucker noted the importance of U.S. investment in promoting U.S. exports. He wrote:

> "International trade has been steadily slowing down for most of the past decade. But international investment is booming as never before. It has now become the dominate factor in the world economy....Traditionally investment has followed trade. But trade is increasingly becoming dependent on investment.
>
> "U.S. exports in the years of the over-valued dollar would have been even lower had the European subsidiaries of American companies and American joint ventures in Japan not continued to buy machinery, chemicals, and parts from the U.S.
>
> "...It is simply not possible to maintain substantial market standing in an important area unless one has a physical presence as a producer."

Thus, the long-term investments that OPIC supports overseas are highly beneficial to U.S. export interests, and OPIC insurance is an important factor in keeping American firms competitive.

ASSERTION (pp. 24, 27, 30-31, Appendix I)

> OPIC does not verify data by examining records during the monitoring process and should at least selectively check project records to ensure that data obtained during project monitoring is accurate.

RESPONSE

The GAO asserts that because the information provided by investors in their applications for insurance sometimes differs from monitored project data OPIC should selectively audit investor's records. OPIC disagrees. Auditing might be indicated if GAO (or OPIC) had discovered some evidence that OPIC clients misrepresent the facts of their projects. But the simple fact is that the GAO audit did not find a single instance in which applicants misrepresented information which was later uncovered in the course of an inspection of the books. The GAO essentially did what OPIC does in the ordinary course of project monitoring, (*i.e.*, the auditors compared information provided on the application for insurance against both the information provided by the investor's home office as well as information provided by field representatives of the project.) It is true, as the GAO asserts, that discrepancies sometimes appear between these three sets of numbers (simply because project details change somewhat over the course of time, or because the home office may not be thoroughly familiar with its subsidiary's operation) and it is the obligation of

OPIC's monitoring staff to reconcile any differences. It is clearly unnecessary in the vast majority of cases to audit an investor's records to effect a reconciliation. In most instances it suffices simply to ask the investor to explain the discrepancies.

To the extent that the GAO found discrepancies between what was told to them by project representatives and what they discovered in project records, they admit that this was due "generally to a misunderstanding of our data needs." OPIC, after years of experience, has learned that when there are large discrepancies, it generally indicates data misunderstanding problems. Thus, in the 1981 electronics project monitoring exercise where, as the GAO report notes, OPIC reported incorrect data to the Congress, it was OPIC itself that recognized the error. Therefore, after informing Congress, OPIC re-monitored the projects and discovered that a consistent series of mistakes had been made by the investors in disaggregating data. This had inadvertently resulted in a significant over-estimation of imports. But to correct this error, it was not necessary to audit the books and records of the investor. All that was required was to ask the investor to explain the discrepancy between the application information and the figures provided during monitoring.

Since active misrepresentation by project investors has not been demonstrated to be a problem, there is no reasonable basis for the GAO's recommendation that OPIC should undertake selective audits of investors' records. For OPIC to audit investors' records routinely would be burdensome for the American businesses involved and impose additional (and we believe entirely unnecessary) staffing requirements on OPIC. OPIC acknowledges that there could be situations that might require an audit, and in such instances we will.

ASSERTION (pp. 26, 30)

OPIC devotes too few staff resources to the tasks of reconciliation and analysis of monitoring data.

RESPONSE

OPIC disagrees with this assertion. The GAO report contains no evidence whatsoever that OPIC's reconciliation and analysis of monitoring data has been inaccurate or inadequate. There is simply no reason to devote more staff resources to a function which is being adequately performed.

ASSERTION (pp. 17)

OPIC's sectoral analyses are mainly a qualitative assessment of a proposed project's potential economic effect on U.S. trade and employment. The quantification of the impact of OPIC projects on U.S. trade and employment is only carried out after the sectoral analysis has been completed at a later stage in the project approval process.

RESPONSE

OPIC sectoral analyses are qualitative to the extent that they always conclude with a summary sentence that states whether a particular proposed project will (or will not) cause significant harm to the U.S. economy or employment. This qualitative judgment is based on both qualitative and quantitative information supplied by the investor and gathered from other sources and analyzed by OPIC. These analyses are used by the Corporation solely for the purpose of determining whether or not to proceed with a particular project.

Normally, it is only at a later stage in the application process or after the insurance (or financing) has been issued that OPIC--based on the information contained in the sectoral analysis--quantifies all of the other information necessary for it to use in preparing its reports to Congress. Reports to Congress are based on material extracted from both the application and the sectoral analysis. This information includes data on the expected host country development effect as well as the U.S. employment impact--data which are not necessarily relevant to OPIC's sectoral analyses, but are of interest to the Congress. It is, therefore, incorrect to assert that OPIC's sectoral analyses are purely qualitative in nature. An examination of OPIC's extensive sectoral analysis files would conclusively demonstrate that these documents quantify considerable amounts of industry, trade and project specific information in order to help OPIC determine whether a proposed project would or would not harm the U.S. economy or U.S. employment.

It would not be difficult to change OPIC's project analysis system so as to include within each sectoral analysis information about OPIC's estimate of the precise effect that its projects are likely to have on the U.S. economy and employment. The administrative problem with following this procedure is that OPIC's experience has been that during the lengthy project clearance process within OPIC, details of projects are often modified, and it is generally easier to do a final calculation of the U.S. impact at the time of project approval when the numbers are firm, rather than at the earlier stage when the sectorals are performed. Nevertheless, OPIC is considering the possibility of including more of these quantitative estimates in its sectoral analyses.

## IV. OPIC's Role In Promoting U.S. Investments Abroad

The audit report repeats a misleading assertion made in the earlier draft concerning OPIC's role in promoting overseas investment in developing countries.

ASSERTION (p. 2)

> Investments assisted by OPIC in 1985 represented less than five percent of total U.S. private investments abroad.

RESPONSE

By citing this estimate the GAO implies that OPIC plays an insignificant role in promoting U.S. investment overseas. However, while this assertion may technically be correct, it is misleading as to the important role that OPIC plays. The vast majority of American overseas investment goes into other industrialized nations in which OPIC is not allowed to operate. With respect to investment in developing counties, OPIC's role has been similarly limited by statute. OPIC cannot operate in countries with which it does not have a bilateral agreement, or countries ineligible for its programs for other statutory or foreign policy reasons. Even in countries where OPIC's programs are operative, types of projects which OPIC can support are limited by statute. For example, OPIC cannot insure petroleum projects in OPEC countries overseas, nor is the Corporation generally able to support projects in "sensitive" sectors, such as citrus, textiles, steel, and automobiles. These restrictions define and limit the extent of OPIC's universe. Further, OPIC can only support new investment, even in countries newly eligible for its programs. Thus a comparison of the amount of OPIC-supported investment with the total stock of existing U.S. investment is highly misleading as an indicator of OPIC's significance to potential investors with eligible projects. Within the universe of projects that OPIC is permitted by the Congress to support, however, we estimate that over 20 percent of eligible investments are assisted by OPIC.

## V. OPIC Response to GAO Recommendations*

This section contains OPIC's formal responses to the recommendations set forth in GAO report GAO/NSIAD-87-109.

### RECOMMENDATION

OPIC should develop formal policies and a comprehensive system for screening and monitoring the U.S. economic effects of OPIC-assisted projects.

### RESPONSE

A comprehensive system for screening and monitoring already exists which has been described in detail to the Congress on several occasions. In the absence of a finding by the GAO that any of the specific projects they reviewed resulted in displacement of U.S. employment, OPIC perceives no need to develop new formal policies. OPIC has confidence that the existing system responds to statutory requirements.

Action to be taken: None.

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*GAO recommendations on pp. 54-55 of the report.

### RECOMMENDATION

OPIC should develop a "methodology that more clearly and accurately estimates the U.S. economic effects of projects being considered for OPIC assistance (separate from any possible alternative)."

### RESPONSE

We believe OPIC's present methodology for screening projects clearly and accurately estimates the potential impact those projects will have on the U.S. economy. Indeed, the GAO admits, on page 28 of the report, that they did not discover any OPIC projects which actually had an adverse effect on the U.S. economy. Based on the GAO study, OPIC currently proposes to make no changes in its existing methodology for carrying out sectoral analyses. OPIC, in conjunction with Arthur Young, is currently undertaking an extensive study of OPIC's U.S. effects for Congress, which may result in recommendations for changing the current methodology. If so, OPIC will make such changes as are appropriate.

Action to be taken: None.

### RECOMMENDATION

OPIC should develop a methodology that accurately calculates the actual effects of ongoing projects on the economy of the United States, including proper treatment of start-up and operating procurement, indirect exports to the United States, and appropriate labor output ratios.

RESPONSE

As noted previously, OPIC's methodology for calculating the actual effects of its projects on the U.S. economy is accurate. In carrying out its sectoral analyses, the Corporation considers, where appropriate, the long-term economic effects of operating procurement. In its streamlined reporting to Congress, the Corporation uses five-year projections only, and utilizes overall labor output ratios rather than specific ratios for specific products. OPIC management is confident that these methods fairly convey to the Congress the effects of OPIC projects and should, therefore, not be changed. Indeed, OPIC monitoring of its projects demonstrates that its initial analyses consistently tend to err on the side of over-estimating the negative effects that OPIC's projects will have.

Pursuant to its new statute, however, OPIC will look more closely at the question of indirect imports.

Action to be taken: OPIC has been devoting more attention to the question of identifying the effects of the indirect imports on the United States economy since 1985.

RECOMMENDATION

OPIC should prepare specific guidance for sensitive industries.

RESPONSE

Such guidance exists in the textile and agriculture sectors. We believe it is unnecessary and unworkable for other sensitive sectors for the reasons given in OPIC's response above.

Action to be taken: None.

RECOMMENDATION

OPIC should define when an adverse impact becomes "significant".

RESPONSE

The Corporation does not believe that its discretion in this matter should be circumscribed. In the absence of a finding that any sectoral analysis which was carried out by the Corporation resulted in a project which harmed the U.S. economy, OPIC believes that it has been faithful to the trust conferred on it by the Congress.

Action to be taken: None.

RECOMMENDATION

OPIC should routinely consult with concerned public and private organizations and consider the Department of Labor's trade adjustment assistance actions.

RESPONSE

OPIC regularly consults with the organizations mentioned by the GAO in its report; it has taken cognizance of the TAA actions for many years.

Action to be taken: None.

RECOMMENDATION

In its annual reports to the Congress on U.S. economic effects: (1) OPIC should report (without offsetting alternatives) the aggregate results of the operations of projects expected to have (or having) positive direct impacts on U.S. trade and employment separately from the aggregate results of those expected to have (or having) negative impact, and (2) report separately the economic effects on the United States of any alternatives (including the presumed actions of non-U.S. investors) and assumptions that were considered and analyzed as part of the project approval process.

RESPONSE

As specifically required in OPIC's 1985 reauthorizing legislation, in FY 1986 OPIC adopted a procedure for reporting to Congress the aggregated results of projects expected to have a positive U.S. trade and employment impact separately from the aggregated results of those expected to have a negative impact.

OPIC believes the recommended reporting format proposed by the GAO would result in a distorted and inaccurate portrayal of the effects of the investments which OPIC supports in developing countries and thus would mislead the Congress.

Action to be taken: No new actions beyond compliance with the statute's new reporting requirements.

RECOMMENDATION

OPIC should report separately the effect on trade and employment of project construction and start-up procurement versus on-going procurement.

RESPONSE

OPIC currently combines the effects on trade and employment of start-up and ongoing procurement. This is in no way intended to obscure (nor does it conceal) the effects of a project; rather, it is done for the sake of summation. OPIC has clearly described to Congress the basis of its reporting which includes both initial and ongoing procurement.

The format suggested by the GAO (Appendix IV to the GAO report) for reporting effects of projects is unwieldy and impractical. The data it would contain are no different from the data OPIC currently collects and analyzes. However, OPIC believes it is more useful to Congress to combine the data into two numbers (the trade effect and the employment effect) than to present, as suggested by the GAO, twelve numbers, which a reader would logically aggregate anyway. OPIC believes that the primary concern of Congress and the general public is best addressed in the current format. The impact on the U.S. economy can be portrayed more effectively and efficiently with two pieces of data than with twelve.

Action to be Taken: None. OPIC believes that its current method of reporting is sufficiently accurate and comprehensive.

RECOMMENDATION

OPIC should determine the appropriateness and circumstances for including in future assistance arrangements authority to discontinue assistance to projects whose operations are found to have adverse impacts on the U.S. economy.

RESPONSE

Investors who change the product lines of their projects must inform OPIC. If OPIC determines that the new product will have a significant adverse effect on the U.S. economy (or affect OPIC's risk on the insurance policy or violate any other restrictions on OPIC-supported activities), it may cancel the investor's insurance. OPIC is satisfied that these policies adequately protect U.S. employment and the U.S. economy.

Action to be taken: None.

RECOMMENDATION

OPIC should establish a documentation system for screening and monitoring that will record actions taken, help ensure the accuracy of the results obtained, and be useful in performing future screening and monitoring analysis.

RESPONSE

OPIC will, in the future, leave a better "audit trail" to record the steps taken in its analyses.

Action to be taken: OPIC has implemented a system to maintain better documentation of people and organizations contacted during the course of screening and monitoring, as well as a brief indication of the substance of the conversations.

RECOMMENDATION

OPIC should assess the adequacy of resources devoted to the screening and monitoring processes.

RESPONSE

OPIC is satisfied that it has devoted sufficient personnel resources to both these functions.

Action to be taken: Given changes occasioned by an increase in its authorities in FY 1987 and possible changes in FY 1988, OPIC is reassessing its personnel needs in all departments for all of its functions in the next few months--including resources devoted to screening and monitoring.

RECOMMENDATION

OPIC should provide for selective verification of monitoring data and improved use of monitoring results through formal feedback to the screening process.

RESPONSE

Since the GAO's own audit did not turn up any cases of intentional misrepresentations by investors, and since OPIC's invariable experience over the years has been that investors conscientiously seek to report accurately the results of their projects, OPIC does not feel it is necessary as a matter of course to conduct audits of investors' books and records, although it would not hesitate to do so in special cases as circumstances might warrant. As described earlier in this document, OPIC monitoring results are fed back into the screening process as necessary.

Action to be taken: None.

CONCLUSION:

Although OPIC appreciates the time and effort that the GAO has expended on this report, OPIC respectfully disagrees with many of the GAO's main findings and conclusions. OPIC believes that the GAO's criticism of certain aspects of OPIC's reporting to Congress is unfounded because the GAO failed to take into account the complex economic realities of OPIC's projects. OPIC takes great comfort in the fact that, despite the exhaustive review conducted by the GAO, the report does not identify a single project where U.S. job losses actually occurred. For this reason, OPIC believes that adoption of the report's primary recommendations would distort OPIC's reporting of the actual effects of its projects on the U.S. economy and would be a disservice to the Congress. OPIC is, however, already implementing some of the procedural recommendations made by the GAO for performing sectoral analyses and project monitoring, and OPIC intends to continually refine and improve upon those procedures.

Liberia: Need to Improve Accountability and Control Over U.S. Assistance NSIAD-87-173, 07/16/87

Status: The GAO made one recommendation in its 1987 report on aid to Liberia: "We recommend that the A.I.D. Administrator negotiate agreements with the Government of Liberia [GOL] to strengthen controls over the P.L. 480 program." The GAO stated that A.I.D. should consider: placing counterpart funds in a commercial bank not affiliated with the Liberian government; requiring prior approval authority for all checks written on the counterpart fund account; reviewing project plans before counterpart funds are disbursed to specific projects; and requiring independent verification of counterpart fund use by a party acceptable to both the Liberian and U.S. governments.

There have been a series of discussions between the GOL and the U.S. A.I.D. Mission on the issues of P.L. 480 arrearages, deposit of counterpart funds and accountability. Additional measures to improve accountability will be included during negotiations for the FY 1988 P.L. 480 agreement.

Foreign Aid: Improvement Needed in Management of Technical Services Contracts NSIAD-87-183 08/18/87

Recommendations: The audit report recommended that (1) A.I.D. ensure that competitive opportunities are fully publicized, (2) that reports to Congress on competition discuss the status of all actions previously proposed and provide an analysis of the trends in number and percent of competitive procurement actions since 1985, and (3) that A.I.D. issue instructions on managing centrally funded procurements. The instructions should include procedures for project officers to ensure contractor compliance with billing requirements, for missions to provide information on services received, and for contracts to require contractors to bill A.I.D. by funding organizations.

Status: On Recommendation 1 regarding publicizing, the Agency has issued contract information bulletins advising all contract activities of the Competition in Contracting Act (CICA) publicizing requirements now contained in the Federal Acquisition Regulation. As a result of the GAO's findings, the Agency will reemphasize those requirements to contract offices in A.I.D./Washington and overseas and continue to monitor compliance in our procurement system reviews.

As a result of the GAO audit, the status of all actions previously proposed was discussed in the January 1988 Annual Report to Congress on Competition. An update on proposed actions will be included in all subsequent reports. Also, a limited analysis of trends in competition was included in this year's report. More analysis, including an analysis of contract amendments, will be included in the report for FY 1988.

Regarding Recommendation 3, the Bureau for Science and Technology, which has responsibility for the centrally managed contracts reviewed by the GAO, issued management guidance to all program managers on May 1, 1987. This was developed in coordination with the Office of Procurement and the Office of Financial Management and includes specific instructions on monitoring contractor compliance with billing requirements, coordination with overseas missions on voucher approval, and new accounting procedures to ensure that funds are billed to the proper accounts. In addition, the Office of Procurement has significantly increased billing instructions to contractors in all new contract awards.

## MARXIST ECONOMIC DOCTRINES AND DEVELOPING COUNTRIES

SENATOR INOUYE: Why, in your view, have so many developing countries succumbed, at least initially, to Marxist economic policies, when the examples of older communist countries such as those in Eastern Europe demonstrate the futility of those policies?

AMB. WOODS: The initial impulse for the turn to Marxism in the developing countries comes from the period beginning around 1960 when nationalist movements succeeded in bringing independence to the developing world. Many of the new nationalist leaders had been exposed to Marxism, either through training in the Soviet Union or through communist parties in Western Europe, particularly France. The turn to Marxism after independence was also often a reaction to the capitalism represented by the former colonial masters whom the nationalist leaders viewed as having exploited their former colonies for the economic gain of the mother country. A further impetus was the support of colonial liberation movements repeatedly shown by the Soviet Union in the General Assembly and the Security Council of the United Nations. Over the course of the following two decades, it became increasingly clearer to the new independent governments that the Marxist economic system was as much a failure in their countries as it was in the Soviet Union itself. The result has been a widespread turn from Marxism to greater reliance on free markets and capitalist growth.

## GNP GROWTH AND BASIC HUMAN NEEDS

SENATOR INOUYE: Is this, in part, due to the fact that the West too frequently concentrated on GNP growth and did not attend sufficiently to basic human needs?

AMB. WOODS: No, I would not think so. The initial reliance on Marxist dogma was a matter of personal belief of the new leaders, as I have indicated. Western assistance paid a great deal of attention to basic human needs in the two decades following independence in 1960, as it continues to do today. But, at the same time, efforts had to be made to increase the gross domestic product if there was ever to be the prospect that many of these new countries could reach a stage where they could become at least partially self-supporting, thereby reducing their dependence on external assistance.

## GEOGRAPHIC INFORMATION SYSTEM (GIS) AND REMOTE SENSING

SENATOR INOUYE: I understand that A.I.D. is working in collaboration with the United States Geological Survey to develop the Geographic Information System (GIS). It is a computer technology intended to combine a wide variety of remote sensing data with a map grid to provide a more detailed picture than we now have of a region's ecological and infrastructure composition.

How much money is A.I.D. investing in this new technology and what percentage of the cost is being funded by other U.S. Government agencies?

AMB. WOODS: In FY 1986 A.I.D. invested $1.7 million in transferring digital mapping technologies to the developing countries. This level has remained constant, and we expect it will stay that way for the next several years. Digital mapping technologies include geographic information systems and image analysis equipment for the purpose of interpreting remotely sensed data. Other U.S. Government agencies that have cooperated with

A.I.D. in developing and transferring GIS technology are primarily the U.S. Geological Survey and, to a more limited degree, the National Oceanic and Atmospheric Administration (NOAA) and the Defense Mapping Agency Inter-American Geodetic Survey. These agencies do not fund any part of the transfer process, but are reimbursed directly by A.I.D. for their services. Most of the transfer of GIS is contracted through U.S. private industry. That part carried out by other U.S. Government agencies amounts to roughly 25 percent of the total A.I.D. investment for mapping technologies.

SENATOR INOUYE: What assessments has A.I.D. made to determine whether there is a need for this new technology in light of other pressing budget demands?

AMB. WOODS: A.I.D has just completed a study, "An Assessment of Information Demands for Remote Sensing and Geographic Information System Technologies," in February 1988. The assessment was carried out in developing countries covering a wide range of technological sophistication (Brazil, Colombia, Ecuador, Peru, Kenya, Ivory Coast, Niger, Bangladesh, and Thailand), as well as the major space-faring donors (United States, Japan, Italy, and United Kingdom). The major findings include the need for improved GIS and remote sensing systems for management of food information and forecasting of crop production, for knowledge about biological resources and conservation of their diversity, and for base maps to better plan development activities.

SENATOR INOUYE: Please describe the possible applications of the GIS and why the system is an improvement over the data collection and processing systems we now have in use in the development field?

AMB. WOODS: GIS is generally a computer-based system for overlaying different mapped data and deriving new insights into how various resources interrelate. In A.I.D. projects, these uses range from linking crop production forecasts with populations-at-risk in Africa to assessing the environmental impacts of highland development in Peru. A.I.D. has purchased roughly 20 GIS in the past two years for installation in the developing countries. GIS represents an improvement over other systems presently in place because GIS allows planners to spatially relate information in map form. Other systems will not do this.

## GEOGRAPHIC INFORMATION SYSTEM (GIS) AND REMOTE SENSING

SENATOR INOUYE: It is a concern of this Subcommittee that new technology, no matter how attractive, does not lead policy considerations. Rather, new technology should be viewed as providing policy-makers with tools for the more efficient conduct of their work.

Has this concern been expressed in any of the administrative studies or documents produced by A.I.D. evaluating the need for a Geographic Information System or expanded remote sensing?

AMB. WOODS: Yes it has, many, many times. The notion of mapping technologies fitting into the framework of sector policy is prevalent in A.I.D. projects. This philosophy is well captured and summarized in papers that A.I.D. staff have presented at major conferences. In a 1987 paper entitled "Remote Sensing Policy Guidelines in Development," A.I.D. technical staff made it very clear that natural resources, rural development, and education policies must necessarily set the stage for the mapping sciences. To emphasize that policy dictates the ways that GIS is used, A.I.D. stressed at the largest meeting ever held on GIS in government that: "A decision-maker agonizes over policies and methodologies" when trying to incorporate and justify GIS. (Paper entitled "Support for Geographic Information Systems in Developing countries," presented in December, 1985, at the U.S. Army Engineering Topographic Laboratories Geographic Information Systems in the Government workshop.)

SENATOR INOUYE: What consideration has A.I.D. given to the possible national security implications of expanded public access to remote sensing data and the computerized output of the GIS?

AMB. WOODS: A.I.D. develops and transfers only that mapping technology which is freely available in the civilian, public domain. All equipment purchased and installed goes through Commerce Department licensing processes, just as other high technology items do in the foreign assistance program. A.I.D.'s consideration about security implications of its remote sensing activities usually focus on the host country and its concern about open distribution of information about its resources. Such concerns are built into the project design and aired with both U.S.A.I.D. and American Embassy staff in the host country before being discussed with the host country itself.

SENATOR INOUYE: Has any other government agency expressed a concern about the security implications of the GIS or expanded remote sensing?

AMB. WOODS: Informally, the intelligence community has raised concerns with A.I.D. staff, but our responses regarding the need to acquire better information about natural resources and population pressures on the land seem to satisfy them that there are no national security implications in what we are attempting to do.

## AFRICAN TRADE ISSUES

SENATOR INOUYE: In a review of sub-Sahara African trade with the United States, European Economic Community, and Japan, GAO identified several non-tariff barriers hampering African exports to the United States. Among these barriers were a lack of knowledge on the U.S. Generalized System of Preference, and a lack of information on and knowledge of U.S. health and safety rules and regulations, as well as various U.S. legislative prohibitions. Despite A.I.D.'s provision of training and seminars to African exporters, eligible shipments to the United States from many countries continue to be excluded from "duty-free" entry because of problems such as the lack of proper documentation.

Does A.I.D. plan to undertake any new efforts to help sub-Sahara African exporters to learn U.S. import requirements and related regulations?

AMB. WOODS: Although a lack of knowledge of trade preferences and U.S. regulations is not a non-tariff barrier in a conventional sense, the U.S. Government is seeking to improve information on import requirements through a variety of training and technical assistance activities.

The GAO report acknowledged A.I.D.'s assistance in arranging training seminars on the Generalized System of Preference (GSP) in a number of sub-Sahara African (SSA) countries. In mid-1987, A.I.D. staff also arranged interviews among GAO staff and ambassadors and counselors from several SSA countries to further explore problems with GSP facing African exporters. The interviews identified several ways to improve information on GSP and related regulations. Although some options which have been suggested (e.g., locating customs inspectors in African ports) would appear impractical or too expensive, the Interagency Group (IG) on Private Sector Development (Action Group on Trade) has considered several options such as the development of more formal training programs, starting with GSP, on ways to train our commercial officers to encourage African exporters to avail themselves of GSP benefits more fully. The IG's Action Group on Trade also believes that similar training programs should be developed to explain U.S. customs regulations and selected aspects of our health and safety regulations affecting imports. In addition, A.I.D. continues to provide marketing technical assistance through the International Executive Service Corps and other organizations to exporters in several SSA countries. These projects assist export-oriented firms and trade associations in developing specific marketing strategies so as to take maximum advantage of GSP availabilities and to deal with customs and related regulations on a product specific basis.

In response to the GAO and IG reports, as well as our own project implementation findings, I will strongly encourage efforts to improve information on U.S. import requirements, so as to improve the access of African exporters to U.S. markets.

SENATOR INOUYE: Does A.I.D. have any special programs under way, or plans to begin programs to assist African exporters in shipping fresh fish, lobster, shrimp or other fresh food products to the United States? Are there any particular U.S. health and safety regulations which work to discourage exports from African countries?

AMB. WOODS: West African countries, and to a lesser degree, other regions in Africa, have vast marine resources within their 200 mile economic zones. While these resources continue to be largely exploited by other developed countries, African nations are looking to off-shore fisheries development as a means of increasing both internal food consumption and export earnings. Although A.I.D. itself lacks resources to support large-scale fisheries development, it continues to assist a wide variety of export-oriented fish and food-processing firms in Africa through the International Executive Service Corps and through Project SUSTAIN which provide technical assistance to food processing industries. During the course of our technical assistance projects, U.S. advisors have observed the negative impacts of the uncertainties and lack of information associated with specific health and sanitary requirements which make it difficult for export-oriented firms to contemplate entry into U.S. markets. These conclusions are supported by the GAO's findings that the bureaucratic labyrinth of health and safety requirements constitutes a significant trade barrier. In A.I.D.'s response to the GAO report, we suggested that the report could have elaborated on the nature of health and safety regulations inhibiting African exports. Consensus is growing that these regulations are often designed to protect the U.S. producer rather than the U.S. populace. A.I.D. further suggested that Congressional awareness of this problem might induce some liberalization of unnecessary requirements.

The regulatory difficulties appear to be compounded by legitimate labeling and quality control requirements of U.S. importing firms, particularly for processed foods. I will continue to encourage the provision of technical marketing assistance to export-oriented firms and trade associations to improve their access to U.S. markets, in part through better information on the requirements of regulatory agencies and the importers of SSA products.

## CARIBBEAN BASIN INITIATIVE - ECONOMIC PERFORMANCE

SENATOR INOUYE: The Caribbean Basin Initiative is a trade initiative intended to promote economic and political stability in designated Caribbean and Central American countries by attracting foreign and indigenous investment, thereby diversifying the countries' economies and generating employment and foreign exchange earnings. To date, much of the investment occurring in these countries has been in assembly industries which have low domestic value-added and thus has not generated the levels of net foreign exchange earnings necessary for these countries to service their debt and pay for necessary imports.

What are the administration's projections for Caribbean countries' economic performance over the next few years? What are the projections for Central American countries?

AMB. WOODS: The Caribbean Basin Initiative (CBI) has been successful in promoting the growth of nontraditional exports, especially from those countries that have adopted market-oriented economic policies. However, the answer to your question depends in part on the levels of U.S. economic assistance, which has been supporting programs of economic policy reform. I believe that our inability to provide ESF funding for the Caribbean islands this year has harmed prospects, and I hope that this situation will not be repeated in 1989.

As shown in the table below, gross domestic product (GDP) growth rates, partly due to our assistance, have improved steadily during 1985-1987, and we expect a further increase in 1988 for Central America. For the Caribbean, the projected decline in 1988 in the growth rate is due to poor performance in Haiti and the Dominican Republic. In the Dominican Republic, very rapid growth for 1987 was purchased at a price of needed austerity in 1988.

REAL GDP GROWTH RATES, 1985-1988
Weighted Averages for A.I.D. Countries

| Subregion | 1985 | 1986 | 1987 | 1988* |
|---|---|---|---|---|
| Caribbean | -1.3 | 2.0 | 3.8 | 1.9 |
| Central America | 0.5 | 1.3 | 2.9 | 3.6 |

*Projected

We believe that -- aside from the inevitable year-to-year fluctuations due to a variety of internal and external influences -- the underlying growth capacity of these countries is steadily improving. As in all small countries, growth rates are heavily dependent on external factors, notably world commodity prices and growth in the industrial countries. Assuming a favorable world environment, we consider sustained growth rates in the 6 percent range possible by the early 1990s for the countries that have moved furthest to improve their economic policies. Costa Rica and Jamaica are clearly in this category. Guatemala and the Dominican Republic could also do so with appropriate policy action. For other countries, slower growth is more likely.

The CBI is an important element of the rapid growth potential for the region. We consider what has happened during the last four years to be extremely encouraging. If recent trends in nontraditional exports continue, the employment and growth situation in the region by the early 1990s -- at least in countries that have done their part to benefit from the opportunity -- will be fundamentally different than it was in 1983.

More specifically, for the CBI countries where A.I.D. operates, U.S. imports of all nontraditional goods from the region (i.e., all products except coffee, sugar, bananas, beef and bauxite) grew at an annual rate of 15.4 percent over the 1984-87 period. Our imports of manufactures from these countries grew even faster -- 21.4 percent per year. As a result, nontraditional products rose from 46.3 percent of our imports from the region in 1983 to 63.1 percent in 1987. We believe that this trend can continue over the next decade, ending the region's heavy dependence on a few primary products. I also want to add that our exports to them are also rising rapidly. Although we had a $170 billion trade deficit with the world in 1987, the United States actually had a trade surplus with the CBI countries where A.I.D. works.

## CBI - DEBT SERVICE OBLIGATIONS

SENATOR INOUYE: How will Caribbean countries such as the Dominican Republic meet their debt-service obligations and pay for imports, given declining U.S. balance-of-payments support?

AMB. WOODS: The complete elimination of Economic Support Funds (ESF) for FY 1988 for the Dominican Republic and Jamaica, as well as for the Eastern Caribbean, has made it especially difficult for them to find adequate resources to maintain stabilization and economic reform programs, while meeting their debt service obligations and covering import needs. We hope that the necessary levels of funding for FY 1989 will be available.

Both the Dominican Republic and Jamaica have extremely large debt burdens: $3.8 billion debt (61 percent of gross domestic product [GDP]) for the Dominican Republic; and $3.4 billion (115 percent of GDP) for Jamaica.

Financing import needs and debt service over the longer term requires action on three fronts. First, continued growth in exports, particularly of nontraditional products, is essential. Both Jamaica and the Dominican Republic are making very impressive progress in this regard. We believe that our ESF has been particularly effective in promoting export-led growth, and in helping cover the short-run costs associated with the difficult policy changes required. Second, donor support for policy reform and for specific donor projects needs to continue. Third, creative solutions to the debt overhang in both countries are needed. Various possibilities need to be explored, including rescheduling of debt, debt-equity swaps, and other creative debt financing solutions.

## A.I.D. SUPPORT FOR TOURISM

SENATOR INOUYE: Although the Caribbean area is natural for the development of tourism, A.I.D. has provided very limited funding for this sector; A.I.D. officials have indicated to GAO that tourism is viewed within the agency as incompatible with A.I.D.'s basic human needs mandate. What is A.I.D.'s position on funding tourism development, since the sector does generate considerable employment and some net foreign exchange earnings?

AMB. WOODS: There is no Agency policy prohibiting or limiting A.I.D. support of tourism activities. Nevertheless, due to limited funding and other priority uses for A.I.D. resources, little direct support for tourism is provided in most regions. In the Caribbean, however, given the importance of tourism, we have assisted a variety of activities in support of tourism development. We previously funded a study of greater utilization of locally produced foods by the tourism industry and recently financed a study of tourist promotion for the Eastern Caribbean. A.I.D. also has supported a number of infrastructure investments which benefit tourism as well as local communities, including road construction, potable water and sewerage systems, and electric power generation.

Generally, we believe that most of the needs in this sector can be adequately met from other sources, notably private financing, and that A.I.D. should become involved only where it can play a key catalytic role.

## CBI - OPPORTUNITIES FOR FURTHER ASSISTANCE

SENATOR INOUYE: What more can be done under the CBI to assist (1) Caribbean and (2) Central American countries in attracting investment, generating employment and increasing net foreign exchange earnings?

AMB. WOODS: In general, we believe that the Caribbean Basin Initiative (CBI) provides a favorable environment for increasing investment, employment and export earnings. Nevertheless, there are two major problems. First, U.S. sugar import quotas have seriously harmed the region. They have dramatically cut sugar imports from these countries from $580 million in 1981 to $173 million in 1987, creating serious unemployment problems and a shortage of scarce foreign exchange. This negative factor has offset many of the positive impacts of the CBI. I know that you are well aware of this problem. Your amendment to this year's appropriations legislation sought to increase U.S. sugar imports from the region.

A second problem area is the fear on the part of potential investors in the region of a lack of a firm U.S. commitment to the principles underlying the CBI. The sudden elimination of ESF in FY 1988 for the region has raised serious questions regarding the dependability of U.S. economic assistance policies. Some products, notably most leather goods and textiles, are excluded from the CBI. In other cases, for example, ethyl alcohol, the United States has changed the rules after significant investments were made in the region. I think the fear of adverse changes in the "rules of the game" in the face of successful exporting has led to reluctance on the part of some to invest in the Caribbean Basin.

Several pieces of legislation have been introduced to address these problems. Senator Bradley, along with others, has sponsored a bill to reduce the artificially high level of U.S. sugar price supports (S. 1948). Secondly, Senator Graham and others have introduced legislation to extend the life of the CBI and improve some of its provisions (S. 1594). The Administration has proposed some modifications to each of these bills but strongly supports their general thrust.

## ESF AND FOREIGN MILITARY SALES DEBT

SENATOR INOUYE: The Economic Support Fund (ESF) program has been the fastest growing component of the foreign aid budget. For fiscal year 1987, A.I.D. provided $3.9 billion in ESF assistance to 48 countries and 4 regional programs -- 51 percent of all bilateral foreign economic assistance.

A.I.D. has increasingly provided ESF as cash transfer assistance. For fiscal year 1987, A.I.D. provided $2.3 billion or about two-thirds of all ESF in cash, $1.2 billion in projects, and $359 million in commodity import programs (CIP). ESF serves a wide array of U.S. foreign policy objectives. In recent years, Congress has explored how the ESF program can be used to achieve economic and development objectives while serving other important foreign policy objectives.

In view of congressional concerns, A.I.D. has said that it will not permit ESF recipients to use ESF to repay Foreign Military Sales (FMS) debt except where Congress indicates this to be a proper use. What problems, if any, has this policy posed for ESF cash transfer recipients?

AMB. WOODS: No problems have been posed by A.I.D.'s 1987 policy guidance regarding ESF cash transfers, which precludes FMS debt service as a use of ESF separate account dollars, except where "such use of cash transfers is recognized by statute as amplified by legislative history as valid."

A.I.D. does permit the use of ESF funds to pay military debts in the case of Israel. Our policy with respect to Israel responds to concerns by members of Congress and relevant legislative history recognizing the use of ESF resources for FMS debt repayment as valid.

## ESF CASH TRANSFERS

SENATOR INOUYE: Has A.I.D. encountered any difficulties in implementing the legislative provision requiring separate accounting for cash transfers? What procedures is A.I.D. using to ensure that cash transfer funds are disbursed for authorized purposes?

AMB. WOODS: A.I.D. issued an initial policy guidance cable on ESF cash transfer assistance to all missions in February 1987. In October, A.I.D. issued an amplified policy guidance on the same subject. There are, of course, some "teething problems" associated with putting in place a system of separate accounts to track cash transfer program dollars. For example, a country that belongs to a monetary union may have special difficulties establishing separate dollar accounts. From the programmatic perspective, separate accounts weaken our efforts to help individual countries rely more heavily on market forces in allocating their foreign exchange. For example, when foreign exchange is deposited into a separate account, it typically cannot be used to import any item from any source as it could be if it were available at the free market price to any buyer. And there are, of course, administrative burdens on both developing countries and ourselves. A.I.D. now is refining the system that was established by the February and October guidance cables.

SENATOR INOUYE: What does A.I.D. consider appropriate uses for cash transfer assistance? How do such uses contribute to the economic development of ESF countries?

AMB. WOODS: A.I.D.'s highest priority regarding use of cash transfer assistance is to promote the implementation of key economic policy reforms by the recipient governments. The viability of, and the benefits from, development projects suffer under inappropriate economic policies. ESF cash transfers are supporting significant improvements in the policy environment in a number of ESF countries. The use of ESF for these purposes contributes to the development of recipient country economies by providing foreign exchange, and by encouraging the economic policy reforms necessary to promote economic stabilization and broad-based growth.

A substantial portion of ESF cash transfers is utilized for the financing of urgently required goods and services import transactions. Priority should be given by recipients to imports from the United States and to imports which promote growth of the host-country economy. Use of the foreign exchange under these circumstances is normally limited to approved raw materials, intermediate and capital goods, and essential consumption goods.

In countries with foreign exchange auctions or where free market exchange rates are otherwise approximated, ESF cash transfers facilitate further liberalization of import regimes.

In certain cases where recipient country debt-servicing requirements are a significant barrier to growth and development, and/or where circumstances argue against the financing of imports, cash transfer assistance may be used for debt-servicing. In some cases, recipients use cash assistance both to service debt and to finance imports. The use of cash transfer assistance for debt-servicing may be particularly appropriate where servicing will assist in leveraging other donor assistance. A.I.D. does not consider appropriate the use of cash transfer assistance for servicing certain categories of debt which are seen as having a non-developmental character, such as military debt (with the exception of payment of Foreign Military Sales debt by Israel, for which congressional intent is specifically indicated in legislative history).

## POLICY REFORM

SENATOR INOUYE: Although A.I.D. has increased its efforts to leverage ESF cash transfers to encourage economic policy reforms, some economies have actually worsened. Can you explain how A.I.D. measures the results of its policy reform efforts?

AMB. WOODS: In general terms, the results and their measurement occur in two stages: the change in the policy itself and the economic consequences of the policy change. The former results are measured in terms of progress benchmarks and conditions stipulated in the ESF program agreement. Measurement, or assessment, occurs in the course of program monitoring by the resident U.S. A.I.D. mission and by conducting comprehensive program evaluations.

Measurement of the economic results of the policy reforms varies with the particular country circumstances. It can be extremely difficult to assess the consequences of a given policy reform in terms of a measurable economic indicator because many indicators, especially those that measure output or aggregate variables, such as the inflation rate, are affected by a large variety of factors other than the changed policy. Other actions by the host government, other donor actions, weather and international commodity prices can and do exert major influences on an economic outcome. Thus, an

A.I.D.-sponsored reform can succeed in its goals even as related indicators show the negative (or even greater positive) consequences of other changing factors. In cases where the linkage between the policy reform and the general economic indicator is obscure, A.I.D. usually assesses the consequences of the policy reforms it promotes by examining indicators closely associated with the reform. Some policy reforms that A.I.D. supports, such as exchange rate liberalization, can yield relatively straight-forward results: the volumes of exports and of non-traditional exports tend to rise over time, and there is an increase in production levels of efficient import substitutes.

## EGYPTIAN COMPLIANCE WITH IMF STAND-BY ARRANGEMENT

SENATOR INOUYE: Is Egypt currently in compliance with the IMF Stand-By Arrangement it signed in May 1987?

AMB. WOODS: The International Monetary Fund (IMF) program of May 1987 was approved with the understanding that a second round of strengthening measures would be undertaken in connection with the first review of the program. Egypt has fallen behind the schedule outlined for this second round of reform actions. Egypt's IMF agreement remains in place, however, and sensitive policy discussions are currently under way with the IMF staff. The IMF has not declared Egypt to be out of compliance with its program. Though problems have arisen with the program, the IMF and the Egyptian authorities are consulting to keep the reform process moving ahead. The Government of Egypt (GOE) has reiterated its commitment to reform but wishes to proceed at a pace which accommodates its concerns for domestic stability.

## FURTHER EGYPTIAN ADJUSTMENT MEASURES

SENATOR INOUYE: Has Egypt agreed to any further adjustment measures, particularly in the areas of foreign exchange valuation, interest rates, and energy pricing?

AMB. WOODS: Discussions with the IMF continue on the magnitude and timing of the next set of reforms, which should build on the progress already achieved. Good progress has occurred in the agricultural sector and there has been some additional exchange rate reform, although full unification has not been achieved. No additional steps have been taken in interest rates or energy price increases since May 1987, though prices of other public sector goods have been allowed to increase.

## EGYPT'S REFORM PROGRAM

SENATOR INOUYE: If so, how are these measures expected to strengthen Egypt's reform program?

AMB. WOODS: A major objective of the reform measures was to allow market forces to operate more freely in the Egyptian economy. Initial results suggest that the economy is beginning to respond to these initiatives: wheat production rose to record levels in 1987 due to the deregulated environment; tourism and workers' remittances through official channels have rebounded, due to devaluation of the official bank rate; and increasing reliance is being placed on the private sector for food distribution. The GOE has stated that additional economic reforms are the key to future growth in the economy, a position we have supported through our assistance program.

## CASH TRANSFER TO EGYPT

SENATOR INOUYE: Legislation has conditioned cash transfers to Egypt on movement to comprehensive economic reforms. What specific economic reform measures has the United States required of Egypt in return for U.S. cash transfer assistance?

AMB. WOODS: We take very seriously the requirement in the FY 1988 legislation that any cash transfer for Egypt be disbursed in the context of "significant additional" economic reforms. In FY 1987, the Administration had the authority to disburse cash in excess of $115 million, but did not do so because of insufficient progress on comprehensive reform. Since the last cash transfer, the Egyptian government has undertaken a series of important adjustment measures. In conjunction with the May 1987 IMF Stand-By Arrangement, Egypt undertook a major increase in energy prices, a series of agricultural liberalization measures, a devaluation of the commercial bank exchange rate, and a tightening of monetary policy. Since that point, the foreign exchange system has been further liberalized with additional transactions transferred to market-based rates. These represent, in our view, a good start toward implementation of a comprehensive reform program needed to address the deep-seated problems in the Egyptian economy, but are not as yet sufficient to justify the $115 million cash transfer in FY 1988. The Egyptian government has identified the budget, the foreign exchange system and energy prices as key elements of its reform strategy, and is now discussing with the IMF a further reform program.

## INCREASED CASH TRANSFER ASSISTANCE

SENATOR INOUYE: Is A.I.D. satisfied with this progress, and what actions would justify increased cash transfer assistance?

AMB. WOODS: The Administration is awaiting further reform progress before disbursement of the FY 1988 cash transfer.

The FY 1988 legislation has put a "cap" on the amount of cash transfer eligible for disbursement. However, if the "cap" were lifted, significant new elements of economic reform we could support with additional cash would include, but are not limited to: further reduction of price distortions in the agriculture and industry sectors (particularly in the energy sector) and additional measures to increase revenues and cut expenditures to reduce the budget deficit.

We favor additional flexibility on cash, enabling us to disburse amounts above $115 million in the context of reform. We enjoyed such flexibility in the FY 1987 legislation, but did not exercise it. We would like additional authority restored in the FY 1989 legislation, to enable us to respond flexibly if justified by Government of Egypt actions.

## ESF EARMARKING FOR 1988

SENATOR INOUYE: For fiscal year 1987, about 70 percent of all ESF funds has been earmarked for specific countries. In view of the fiscal year 1988 budget cuts, what will be the impact these earmarks have on ongoing ESF programs, especially those cash transfer programs supporting economic policy reform?

AMB. WOODS: In addition to the cuts and earmarks experienced for FY 1987, more than 97 percent of FY 1988 ESF was earmarked for specific regions, countries or programs. The most devastating effects of the cuts and earmarks have been on our programs in the Caribbean (Jamaica, the Dominican Republic and the Eastern Caribbean) and South America (Bolivia, Ecuador and Peru). The circumstances also required the drastic reduction in our proposed ESF allocations for certain base rights countries (Turkey and Portugal).

Our cash transfer programs for Jamaica, Bolivia, the Dominican Republic, Ecuador and the Eastern Caribbean have been supporting key economic policy reforms. The elimination of ESF for FY 1988 for these countries (a severe reduction in the case of Bolivia), combined with the reductions experienced for the region over the past three years, has sent a message that performance is not a significant factor in decision-making on ESF country allocations. We are now quite concerned that economic policy reform efforts in all of these countries are being weakened.

The loss of FY 1988 ESF has severely weakened the A.I.D. Mission's ability to negotiate needed policy reforms in the Dominican Republic. Protracted negotiations have yet to yield an acceptable macroeconomic stabilization program that could bring the mounting inflation (in excess of 30 percent) and exchange rate instability under control.

The Government of Jamaica counted heavily on U.S. support with ESF for its stabilization program. Popular support for the program is now proving increasingly difficult to maintain, in this Jamaican election year, in view of lowered growth of per capita income.

The loss of FY 1988 ESF has also severely limited resources available for the private sector and for infrastructure development in Grenada and the remainder of the Eastern Caribbean. In addition, the loss of ESF has not allowed the U.S. Government to fulfill commitments to Dominica's structural adjustment program under the multi-donor Tighter Consultative Group.

Bolivia has carried out a comprehensive economic reform program. This program has been implemented at a time when the price of natural gas and tin (the two largest exports) are at historically low levels. The cut in ESF funding severely restricts our ability to support the Bolivian government during a very difficult adjustment period.

## COMMODITY IMPORT PROGRAM

SENATOR INOUYE: What factors have led to the decline of CIPs? Are the public sector CIPs in Egypt and Pakistan consistent with A.I.D.'s efforts to discourage inefficient public sector activities?

AMB. WOODS: A decline in the dollar level of CIPs since 1984 is generally the result of increases in ESF-funded projects and cash transfer/balance of payments support activities. Exports of U.S. commodities have not, however, been reduced proportionately because ESF-funded projects and a number of cash transfer/balance of payments activities support the maintenance of U.S. import levels.

We believe public sector CIPs in Egypt and Pakistan are consistent with our effort to discourage inefficient public sector activities. U.S.A.I.D.s are able to direct assistance away from inappropriate or inefficient public sector entities since commodity lists and eligibility to participate in these A.I.D.-financed import schemes are subject to field mission approval. In Egypt, the U.S.A.I.D. has gradually shifted the proportion of the earmarked $200 million from being fully public sector to $100 million private sector and $100 million public sector.

## LOCAL CURRENCY

SENATOR INOUYE: How many ESF cash transfer recipients have local currency requirements associated with their grants?

AMB. WOODS: Of the 26 countries/programs which are receiving ESF cash transfers during FY 1988, approximately 18 are required to generate local currency. Major exceptions include Israel, the Ireland Fund, Portugal and Turkey. All ESF cash transfer agreements negotiated since enactment of the FY 1988 Continuing Resolution, and many negotiated before, require that local currency be deposited in a separate account. By law, not less than 50 percent of the local currency must be used to support activities consistent with the objectives of Sections 103-106 of the Foreign Assistance Act.

SENATOR INOUYE: How does A.I.D. ensure that these funds are being spent for the agreed-to purposes?

AMB. WOODS: A.I.D. ensures that local currency resources are spent for the agreed upon purposes, primarily by requiring that separate accounts be established and by monitoring disbursements from these special accounts to assure that the local currency is transferred to the appropriate program, sector, or other activity in accordance with the agreement reached between A.I.D. and the host government.

## POLICY REFORM AND LOCAL CURRENCY

SENATOR INOUYE: How are these funds being used to support A.I.D.'s policy reform efforts?

AMB. WOODS: ESF-generated local currencies are used to support policy reform in a wide variety of ways, usually determined by the particular circumstance in the host country. The uses vary according to the degree that the local currency use is integrated with the initial policy change. Examples of closely integrated approaches would be when A.I.D. (a) provides dollars earmarked for host country private sector importers and designates that the local currency go into a credit fund exclusively for the use of private sector firms; (b) purchases local currency in return for a host country's agreement to reduce the size of the public sector and earmarks the local currency to help finance the costs of selling or shutting down government enterprises.

An indirect use may occur when policy reforms are obtained in response to an ESF program and the local currency is used as budget support for activities not directly associated with the policy reform but that are priority development areas such as institution building, environmental protection or agricultural research, and which otherwise would receive inadequate budget resources.

## ECONOMIC SUPPORT FUNDS

SENATOR INOUYE: What is A.I.D.'s position with respect to maintaining accountability over local currency funds associated with ESF cash transfer and CIPs vis-a-vis the dollar grants and commodities themselves?

AMB. WOODS: A.I.D. policy requires that separate accounts and related mechanisms be established to help monitor the allocation, and to track the uses, of local currencies associated with ESF cash transfer program and commodity import program (CIP) funds. We do not require the tracking of uses of local currencies against the dollar grants and commodities *per se*, because there is no direct linkage between the uses of the foreign exchange and commodities and the uses of local currencies generated by the foreign exchange and the commodities. Foreign exchange and commodities are provided for balance-of-payments purposes and local currencies are used, most commonly, to support development activities.

## QUESTIONS SUBMITTED BY SENATOR LEAHY

### LAND MINE VICTIMS IN ANGOLA AND MOZAMBIQUE

SENATOR LEAHY: According to the International Committee of the Red Cross, 20,000 Angolans have lost limbs from land mines in the 12 year civil war. In Mozambique, 5,000 people have suffered the same fate. Many of these victims are children. Is the U.S. providing any funds for prostheses or other treatment of amputees in either of these countries?

AMB. WOODS: A.I.D. is providing no medical treatment to amputees in either country.

In Angola, A.I.D.'s assistance to date has been limited to providing supplementary foods for emergency maternal and child feedings through UNICEF. The Department of State's Bureau of Refugee Programs, however, provides funding to the International Committee of the Red Cross (ICRC) which does operate programs to assist amputees.

In Mozambique, our medical assistance has been limited to vital medicines distributed by UNICEF and ICRC. We understand that the ICRC and the Government of Mozambique may be considering a program similar to the ICRC amputee assistance in Angola.

### HUMANITARIAN MEDICAL ASSISTANCE

SENATOR LEAHY: If the U.S. Government wished to provide humanitarian medical assistance to such victims on a nonpolitical basis, what would be the best mechanism--through the Office of Foreign Disaster Assistance? Some other office of A.I.D.? An international organization such as the UN? Private voluntary organizations?

AMB. WOODS: I believe that the most appropriate channel for such assistance would be either UNICEF or some U.S. or international private group, such as the International Committee of the Red Cross. Both UNICEF and the ICRC have been active in both Angola and Mozambique. The activities of A.I.D.'s Office of Foreign Disaster Assistance are focused on relief in immediately life-threatening situations. OFDA would not, therefore, be an appropriate channel for longer-term rehabilitation assistance.

## QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

### IRELAND - AREAS OF GREATEST NEED

SENATOR LAUTENBERG: One concern I heard about the Fund while in Northern Ireland is that the money is not going to the areas of greatest need, such as West Belfast. As you know, according to the Anglo-Irish Agreement, the Fund is required to address areas "which have suffered most severely from the instability."

AMB. WOODS: The IFI Board has interpreted its geographical boundaries as covering all of Northern Ireland and the six border counties of Ireland in the belief that this entire area has suffered economically as a result of the instability. Project submissions from particularly disadvantaged areas are given priority status and proposals are actively solicited from these communities. This policy reflects the Board's concern to address the needs of the most seriously deprived communities. These areas include parts of Belfast and Derry, plus rural areas and small towns, particularly along the border.

SENATOR LAUTENBERG: Many are concerned that West Belfast has received less than 1 percent of the money appropriated by Congress, despite the fact that it has an extraordinarily high unemployment rate, and is an area which has borne the brunt of the North's violence. Are you aware of this concern?

AMB. WOODS: We have discussed this concern with the IFI Board. In an effort to focus additional attention, Board members have undertaken a series of meetings with community representative organizations, voluntary groups and individuals in North and West Belfast in order to explore what more the Fund might do to assist those areas. For example, the West Belfast Enterprise Development Board, which is representative of the various local enterprise projects, in collaboration with the Fund, is developing a strategy for addressing economic deprivation in the area. The Fund is also working with another group, the Phoenix West Belfast Trust, on a study of urban regeneration. In addition, the Board has entered into exploratory discussion designed to stimulate the emergence of community initiatives with several voluntary organizations in West Belfast.

SENATOR LAUTENBERG: How much money has gone to West Belfast? Is it less than 1 percent?

AMB. WOODS: The IFI Board thus far has authorized four local enterprise projects in West Belfast ($1.5 million), two similar projects in areas of North Belfast contiguous to West Belfast ($.4 million), a center in Derry ($.8 million), and a cooperative in Newry ($37,000). All projects in these areas are designed to encourage small business development through the provision of advisory services and small business incubator units. Over 10 percent of funds, (excluding capitalization of the investment companies) which the IFI has committed have gone to these projects.

### INTERNATIONAL FUND FOR IRELAND - APPLICATION REVIEW PROCESS

SENATOR LAUTENBERG: I also heard concerns about whether project applications from the Nationalist community and West Belfast are being given fair evaluation.

Are you aware that the Board has been criticized for its application review procedures?

AMB. WOODS: These allegations have been discussed with IFI Board representatives. In order to manage such a diverse portfolio of projects, the Board has appointed government agencies on both sides of the border to administer and review its programs. The letter of agreement with these agencies specifies how projects are to be appraised. This appraisal is normally undertaken by staff of the agency concerned but can be referred to outside consultants, particularly when the applicant is unwilling to have his or her project appraised by a government agency. These appraisals are reviewed by the program sector review teams which are composed of equal representation from Northern Ireland and from Ireland. A representative from the Northern Ireland side and one from the Ireland side of the IFI Secretariat also attend all formal review discussions and two Board members supervise the work of each program sector review team. We believe all proposals are given a fair review.

SENATOR LAUTENBERG: I have been told that the Fund has relied on previous evaluations done by Government agencies such as the Industrial Development Authority (IDA), and the Local Enterprise Development Unit (LEDU), which some allege are biased against applications from West Belfast. Are you aware of this?

AMB. WOODS: We are aware the Fund draws inter alia upon previous project reviews. The program sector review teams, and IFI secretariat members use these evaluations as a starting point for the Fund's project appraisal. Using the Fund's appraisal criteria for project selection, a careful review of the project analysis is conducted. After this review the bicommunal team decides whether to initiate further technical investigation of the proposal.

SENATOR LAUTENBERG: I also heard that some enterprises in West Belfast which had applied for money from the Fund were dismissed without a member of the Board or any representative of the Board coming to see the projects. Is this true?

AMB. WOODS: It should be understood that some applications to the Fund are turned down based upon the information provided in the application form, on the basis that they do not meet the IFI Board endorsed criteria set down by the program sector experts. Ad hoc projects which promise to stimulate economic development, but do not fall within a particular program are appraised on their merits, using appropriate business appraisal techniques. Each program is reviewed every four months by the Board which has an opportunity to review all decisions by the sector team which are within its delegation of authority.

Furthermore, due to the amount of time required to visit the numerous project application sites, Board members, who are appointed on a part-time basis, do not normally appraise projects in person or meet individual applicants. However, they closely supervise the work of the program sector teams and administering agencies. The Board is very concerned about the needs of the areas of greatest deprivation. It is currently involved in discussions with community leaders in such areas as West Belfast to look into ways the Fund can be of more help.

## IRELAND - QUEENS UNIVERSITY IN BELFAST

SENATOR LAUTENBERG: I have heard concerns about the Board's decision to provide funds to places like Queens University in Belfast and the University of Ulster.

Did you know that some have said that these universities are under investigation for discrimination against Catholics? Is it true?

AMB. WOODS: The Fair Employment Agency in Northern Ireland is currently studying the employment practices of both universities in Northern Ireland. The study was launched as part of a series of routine studies of all public bodies in Northern Ireland and not in response to allegations of discrimination. However, it should be noted that just under 50 percent of all students in Queen's University are Catholics. A similar percentage is applicable in the University of Ulster.

SENATOR LAUTENBERG: Are you aware that concerns have been raised about using Fund money to establish a Development Chair in Information Technology?

AMB. WOODS: The new chair, which is located at Magee College, Londonderry, is designed to stimulate the development of an Information Technology Industry for the northwest straddling the border. The responsibility of the person appointed will be to research and promote the establishment of an information technology related industry in the region by joint venture, multi-national or indigenous enterprise development. The initiative will also capitalize on the reserves of trained computer personnel, in the deprived area, who currently seek jobs elsewhere.

SENATOR LAUTENBERG: Do you believe this program has the potential of creating jobs for the unemployed?

AMB. WOODS: The Board believes that this project could make a very real contribution to tackling the economic problems of the North West as information technology is a field which has job creation potential. The area has high levels of unemployment, and the labor force could easily be trained in this growing field.

## IRELAND - WIDER HORIZONS PROGRAM

SENATOR LAUTENBERG: I understand that part of the Fund's money is being used to send young people overseas to places like Canada, Denmark, Germany, and even the U.S. for training.

AMB. WOODS: The Wider Horizons Program is specifically provided for in the agreement to establish the Fund. Article 4 states in part: "...the Fund shall give priority on a value for money basis to the following: ... projects to provide wider horizons for people from both areas of Ireland including opportunities for industrial training and work experience overseas...." The Wider Horizons Program aims to encourage managers, skilled workers, students and young people in both parts of Ireland to learn new skills and acquire less provincial outlooks by practical work experience, training and vocational education overseas. The Board views this program as one of its more imaginative initiatives. It seeks to correct the traditional insularity of residents of Ireland, north and south, through the creation of opportunities for persons from both sides to work together off the island in European or North American locations. All projects supported by this program involve not only cross-community participation (in Northern Ireland) but also cross-border participation. Such participation directly addresses the objective of "promoting contact and dialogue between nationalists and unionists throughout Ireland from which reconciliation may flow."

SENATOR LAUTENBERG: How many people will be participating in this program?

AMB. WOODS: It is estimated that the program will provide an opportunity for up to 4,000 persons to benefit from overseas visits and exchanges.

SENATOR LAUTENBERG: Do we have any assurances that those who participate in this program will return to Northern Ireland?

AMB. WOODS: Program participants are briefed on the precepts and conditions for entrance into the program which is designed to develop skills which can be appropriately used upon their return to Northern Ireland and Ireland. The Board is seized with the importance of this question and is considering further measures to ensure that those who participate will return to Ireland.

## IRELAND - JOB CREATION

SENATOR LAUTENBERG: In a meeting in my office on Tuesday, Charles Brett, the Chairman of the Board, told me that to date $43.7 million of the money has been obligated for specific projects, and that by the end of June $26.3 million will be paid out.

Do you know how many jobs will be created once the $26.3 million has been spent?

AMB. WOODS: The IFI Progress Report of April 1988, indicates that approximately $24 million, excluding the capitalization of the two investment companies, has been obligated. It is estimated that more than 2,000 jobs will be directly created, including short-term construction jobs. This figure excludes indirect jobs in ancillary businesses which are expected to be substantial.

SENATOR LAUTENBERG: What about the $43.7?

AMB. WOODS: As the balance between the $43.7 million and the $26.3 involves the capitalization of the two investment companies, it is very difficult to estimate the total employment generation at this time. I can report however, that the first investment of $450,000 to Neotech Industries International, Inc., a U.S. manufacturer of microelectronic pressure gauges in Northern Ireland, is expected to provide an additional 200 jobs. The Northern Investment firm has an additional 14 proposals under review, 4 of which have been approved. The Southern company is reviewing 24 project submissions for possible funding.

SENATOR LAUTENBERG: How many jobs does A.I.D. hope the Fund will create once the $120 million has been spent?

AMB. WOODS: It is too early to say how many jobs will be created once the $120 million has been expended. The Board's overall strategy has been to stimulate long-term economic development which may take time to bear fruit in the form of new jobs. This is particularly true of the Fund's Science and Technology Program which seeks to bridge the gap between the funding of basic research and the development of commercial products. The Fund's Business Enterprise Program is designed in part to enhance the capacity of local communities to generate their own employment on a continuing basis, as well as to stimulate marketing and design activity. Other Fund programs such as tourism should directly contribute to the creation of new jobs. Tourism is seen by both governments as a major potential growth industry with significant spin off benefits in the form of short-term jobs in the construction industry and long-term jobs in ancillary service industries. It also helps to provide employment in areas away from the center of population and industry. The Fund's Urban Development Program should also create new jobs directly through the revitalization of commercial activity in the neutral territory of town centers in Northern Ireland. The Board is fully aware of the importance of job creation, and each program team has been asked to report regularly on this matter.

## IRELAND - CERTIFICATION

SENATOR LAUTENBERG: I understand that A.I.D. has not yet prepared its certification for the remaining $35 million. I have been told that A.I.D. is waiting for the GAO to complete its survey of the Fund, to examine the Boards internal review papers, and to send a team of A.I.D. officials to Northern Ireland.

When do you expect the GAO to complete its survey?

AMB. WOODS: The GAO expects to complete its survey on A.I.D.'s controls over the U.S. contribution to the International Fund for Ireland in June 1988. The survey intends to examine, among other things, A.I.D.'s role in implementing the provisions of P.L. 99-415 and assisting the President to prepare the annual certification that the fund is achieving the goals set out for it in the authorizing legislation. The GAO has not formally informed A.I.D. it is surveying the Fund itself.

SENATOR LAUTENBERG: When did the Board provide A.I.D. with its review?

AMB. WOODS: The Board of the Fund keeps its programs constantly under review and these papers are available to A.I.D. The latest internal management review was provided in April 1988. Furthermore, the GAO held two sessions with representatives of the Fund during their Washington visit.

SENATOR LAUTENBERG: When will A.I.D. complete its examination of that review?

AMB. WOODS: A.I.D. officials will complete their examination of the review during their visit to the Fund.

SENATOR LAUTENBERG: When will the A.I.D. team be in Northern Ireland? When will they complete their review?

AMB. WOODS: A.I.D. officials will be in Ireland May 2 - May 10, 1988, to review the progress of the Fund and to obtain information required for the Presidential certification.

SENATOR LAUTENBERG: What is the time frame on the certification? When will the President present it to Congress?

AMB. WOODS: The Presidential certification will be prepared following the return of the A.I.D. team from its visit to Northern Ireland and of Ireland, and their obtaining the necessary information required by Congress. It is likely to be submitted in June 1988.

## A.I.D. TEAM TO GO TO NORTHERN IRELAND

SENATOR LAUTENBERG: I think it is very positive that A.I.D. is sending representatives to Northern Ireland to examine the Fund. In my view, that visit can help ensure that the money is being spent in the way Congress intended.

What specifically will A.I.D. be looking at in Northern Ireland?

AMB. WOODS: A.I.D. officials will be reviewing Fund policies; looking at approval, monitoring and evaluation procedures; and seeing projects during their visit. They will also be looking into accountability and audit coverage. They have scheduled interviews with Board members, representatives of the respective governments, community members and project holders.

SENATOR LAUTENBERG: Will A.I.D. be looking for evidence of fairness in the application process?

AMB. WOODS: A.I.D. will examine the Fund's project appraisal and approval procedures by reviewing a sample of projects from the time they are received by the Fund to the point of approval or rejection. They will also meet with the program sector teams to ascertain how they conduct the review process.

SENATOR LAUTENBERG: Will you be looking for evidence that the Fund is not being used to promote discrimination and that the money is being distributed equitably?

AMB. WOODS: During the visit, A.I.D. will examine all the policies that enter into the Fund's review and allocation of funds to projects.

SENATOR LAUTENBERG: Will A.I.D. examine the concerns as I have raised in this hearing?

AMB. WOODS: A.I.D officials intend to review your concerns as well as all issues involved with Fund operations, with the Board members and the IFI Secretariat.

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### BASIC EDUCATION EARMARK

SENATOR KASTEN: Ambassador Woods, you have expressed discomfort with our intent to earmark 50 percent of the education and human resources account for basic education projects in FY 1989. The only country where you indicate that the earmark is problematic, though, is Costa Rica, where A.I.D.'s own country allocation requirements are more of an obstacle than a failed basic education program or an earmark.

Our concerns are predominantly in Africa and South Asia, where illiteracy rates hover between 50 and 70 percent and where you have relatively few projects. Given the obvious need, what are you planning to do in those areas in basic education?

AMB. WOODS: In Asia, our major basic education initiative in FY 1989 will be a new project in Pakistan, where primary education enrollment and completion rates are among the lowest in the world, particularly for girls. Development assistance for education also will be provided for Indonesia, Afghanistan and Yemen. In Africa, we will continue support for basic primary and secondary education projects in Botswana, Lesotho, Swaziland, Cameroon and Liberia and will look for additional ways to assist community and adult education and alternative education, particularly in South Africa and other situations in which it is not possible to work directly in support of the existing public education system.

### BASIC EDUCATION - FY 1988 EARMARK PROGRESS

SENATOR KASTEN: As you no doubt are aware through the report language on basic education for this fiscal year's foreign operations bill, it is our intent not to spend more money on existing projects, but rather to increase aid impact on more children in more countries, particularly Africa and South Asia.

How are you doing in meeting this year's earmark, and what new starts do you anticipate in Africa in the future?

AMB. WOODS: We will meet the earmark of $42 million for basic primary and secondary education in FY 1988. However, there has been little budgetary room for new education and training initiatives of any kind. Though I do not anticipate any new education project starts in Africa in FY 1989, we are continuing to look for ways to develop education projects in additional countries in FY 1990 and future years. For countries in Africa without bilateral education projects, we will be looking for ways to increase participant training for educators and to extend support under the central bureau projects for improving analytic, research and management capacities.

### BASIC EDUCATION IN SUB-SAHARAN AFRICA

SENATOR KASTEN: Mr. Ambassador, there are 20 sub-Saharan African countries where fewer than 40 percent of adults are literate. A.I.D. has a basic education project in only one--Liberia.

In addition, there are 10 sub-Saharan African countries where fewer than 20 percent of children complete primary school, and where A.I.D. has no basic education projects whatsoever.

Why isn't A.I.D. making even marginal investments of $200,000 to $500,000 per year in these countries when there are proven methodologies which are not culture-specific and can be implemented without long-range future commitments from A.I.D.?

(For example, radio and other teaching technologies, sector assessments, software models and management information systems.)

AMB. WOODS: Although it is true that adult literacy rates are low in Africa, sub-Saharan Africa has made significant progress in the aggregate expansion of its educational system in the last twenty years. Between 1970 and 1980 alone, total enrollments for the sub-continent grew at an average annual rate of 8.9 percent. As a result of this expansion, 40 percent of the current labor force has had some basic schooling.

While a high rate of illiteracy is an important indicator of need, our future investments in basic education will concentrate on countries with policy environments that support reforms in educational management and delivery, because these are the key areas which currently constrain educational and economic development.

With respect to marginal investments in the education sector of $200,000 to $500,000, our experience in education assistance to Africa has shown us that the greatest development impact from basic education comes when it is tied to an active investment program in other sectors such as agriculture and health. For example, farmers with four years of education have 10 percent higher productivity. Mothers with basic education have fewer and healthier children, and they live longer. Thus, basic education can have a much broader impact on development when it is a part of an appropriately designed assistance portfolio. We do have such programs in several countries.

## A.I.D. EDUCATION PROGRAMS - NEW HIRES

SENATOR KASTEN: Has A.I.D. hired any personnel in the last year to boost its education programs? If so, how many, and what are the regions to which they have been assigned?

AMB. WOODS: Twelve education foreign service officers have been hired in the past eighteen months. Seven have been assigned to the Latin America and Caribbean region, three to the Africa region and two to the Asia and Near East region.

## BASIC EDUCATION

SENATOR KASTEN: Evidence from many sources (World Bank, UNESCO, A.I.D. itself) demonstrates that investments in basic education bring the greatest return in all development sectors, and that technical training programs are largely fruitless in countries with literacy rates below 40 percent.

In those 35 or so countries in Africa and South Asia with the lowest literacy rates, why isn't basic education a higher priority, and one which is integrated more with other sectors in those areas?

AMB. WOODS: I agree that low levels of general education handicap most other areas of development and that it is desirable to integrate education initiatives with initiatives in other sectors. However, there is little A.I.D. can do unless and until countries are prepared to make a serious effort to mobilize their own resources and make administrative and financial reform of their education systems a priority. Where countries are serious about reform, A.I.D. is prepared to respond. Unfortunately, in many of the 35 or so countries with the lowest literacy rates, we have not seen a strong commitment to reform and/or there are such pressing short-term problems that governments have not been willing to give priority to expanding and reforming basic education systems. Finally, in several countries with the lowest literacy rates, A.I.D. is not able to assist education reform directly (e.g., Ethiopia, Angola) and in other countries the A.I.D. program is simply too small to support a significant basic education assistance program (e.g., Sierra Leone, Mauritania).

## BASIC EDUCATION IN SUB-SAHARAN AFRICA

SENATOR KASTEN: The World Bank has stated that only 3 percent of all bilateral aid to Africa worldwide goes to basic education programs, while at least 70 percent is spent on secondary education and training programs.

Given the obvious need for basic education programs in Africa and a corresponding lack of funding worldwide, why does A.I.D. persist in holding so few programs there?

AMB. WOODS: While it is true that the British Overseas Development Administration (ODA) and the Canadian International Development Agency (CIDA) devote the majority of their education assistance to secondary or higher education (75.9 percent ODA, and 86.2 percent CIDA), other major bilateral and multilateral donors contribute far higher percentages of their education assistance budgets to basic education. For example, the French Fonds D'Aide et Cooperation (FAC) has initiated several basic education programs in Africa. Approximately 85 percent of education assistance from France is technical assistance and nearly 40 percent of their total education assistance is for primary education. Basic education is the priority assistance sector for the Federal Republic of Germany (GTZ) and the Swedish International Development Agency (SIDA) devotes 40 percent of its education assistance to the primary education sub-sector, 35 percent to vocational education and 11 percent to adult education. World Bank loans to the education sector in Africa in 1984-85 were $1.2 billion and 44 percent of all Bank education projects have a primary education component. The Bank is also planning new loans in basic education for Mali ($25 million) and Chad ($25 million).

The Africa Bureau is actively seeking opportunities for assistance in the basic education sub-sector. An Action Plan for Assistance to Basic Education is undergoing review at the present time. This plan calls for a higher level of sector assistance in the neediest countries with an emphasis upon planning, management and administration to achieve better efficiency through quality education. The Action Plan also provides for assistance to those countries which have demonstrated good performance but have a continuing need for technical assistance to increase access and improve quality.

SENATOR KASTEN: The average working person in Africa has only three years of schooling. Does A.I.D. believe that serious development in Africa can take place when most people there have three years of education or less?

AMB. WOODS: It is clear from the level of national budgets dedicated to education (between 20 percent and 25 percent) and from the growing donor contributions to the sector, that no one is satisfied with the level of education of the "average" African. Many national governments are making extraordinary efforts to expand their educational systems and to improve the quality of education available to their people. We, the donor community, have limited resources to assist in this national process and A.I.D. is attempting to use its limited funding in the most efficient and productive manner possible. To this end, the forthcoming Action Plan for Assistance to Basic Education in Sub-Saharan Africa will provide a strategy for investment in basic education that will identify African countries for investment and define assistance options most appropriate to the circumstances and to the Agency's capabilities.

The lack of education is but one of many constraints to development in Africa. Although A.I.D. wishes to support basic education, it wishes to do so in a manner consistent with the capability of African nations to absorb such assistance and sustain the resulting programs after our assistance to those basic education programs comes to an end. It is for this reason that we have chosen to focus upon sectoral issues, aimed at helping African nations to use their own much larger resources more efficiently.

## DEVELOPMENT FUND FOR AFRICA

SENATOR KASTEN: Do you continue to receive pressure for earmarks in specific sector areas in the Fund for Africa?

AMB. WOODS: There continues to be strong interest in a number of areas -- population, natural resources, child survival, faculties of agriculture, basic education and AIDS. Some of these, as you know, have been included in appropriations as targets; others have been the subject of directives in Congressional reports. These are all areas of importance, but to the extent funds are earmarked, a major advantage of the Development Fund for Africa -- flexibility to respond to the region's needs based on analyses of the key problems and opportunities in each country - is lost.

SENATOR KASTEN: If those earmarks were to be put in place, how would that affect your flexibility in the Fund?

AMB. WOODS: We consider the flexibility which the elimination of functional accounts affords us to be a critical tool in the achievement of our goals and the mandate of Congress under the Development Fund for Africa. To earmark funds for specific sectors would be to limit A.I.D.'s ability to shift resources to high priority development opportunities as they arise, on a bilateral basis as well as in conjunction with other donors and PVOs. We would also be limited in our effort to develop more coherent and unified programs which link sectoral reform and flexible budgetary resources with technical assistance and other project activities. We want to concentrate resources on key sectors in key countries so that we can maximize our chances of having a noticeable impact with those resources.

SENATOR KASTEN: Ambassador Woods, do you see any need for any changes in your legislative authority for the Africa Fund?

AMB. WOODS: Current legislative authority for the Development Fund for Africa has provided us the flexibility needed to fulfill legislative and Agency mandates for U.S. development assistance to Africa. As we exercise this authority the need for refinements may become apparent, but for now we do not see a need for change.

SENATOR KASTEN: How has this initiative been received in the countries which will be affected by this authority?

AMB. WOODS: It is a bit early yet to report on African countries' reactions to the Development Fund for Africa.

Implementation of the Fund has only begun at the country level within the past few months. Our missions in Africa however, are beginning to develop programs which will more fully exploit the resource levels and flexibility offered by the Fund. Since such program development necessarily involves intensive discussion with government officials and representatives of other groups in recipient countries, we expect to see their reactions reflected in program design efforts undertaken in the coming year.

Given the views expressed by African leaders at the United Nations Special Session on Africa in June, 1986, regarding the importance of the issues which are central to the Development Fund -- policy reform, targeted sectoral investments, better debt management -- we fully anticipate that the Fund will find a very positive reception in the region.

## EARMARKS

SENATOR KASTEN: The Administration has complained about earmarking, especially in the ESF account. What specific changes would you make in country allocations if there were no earmarks to consider?

AMB. WOODS: The answer would depend on the "bottom line" for ESF, which is not yet determined.

Once the overall ESF appropriation is set, we will want to re-examine all of our proposed allocations within the amount made available, both to update our earlier assumptions about requirements during FY 1989 and to adjust priorities to the appropriated total.

Indeed, our basic objection to earmarking stems from the fact that it prevents accommodation to changing circumstances and does not permit us to balance worldwide priorities against total program availabilities.

## AGRICULTURE ACCOUNT

SENATOR KASTEN: You have made a special appeal to hold overall funds in the 105 and 106 accounts, where there are many important projects and programs.

Are you concerned also about reductions in the agriculture account which have occurred over the last several years?

AMB. WOODS: I have stressed on a number of occasions that growth is the cornerstone of economic development, and in many developing countries agriculture must be the engine of growth. In this context I am concerned about the erosion of the agriculture account that has taken place over the last several years. However, given overall budget restraints, it is difficult to allocate adequate funding to all priority areas. During the two year period FY 1985 to FY 1987, the ARDN account decreased by 11 percent, about $88 million. This compares to decreased levels in the 105 and 106 accounts of 13 percent ($24 million) and 9 percent ($18 million), respectively.

## ADVANCED DEVELOPING COUNTRIES - MEXICO

SENATOR KASTEN: On page 29 of your prepared statement, you say that you are working toward "more productive bilateral relationships" between the U.S. and certain advanced developing countries -- specifically, Mexico.

First, would you provide specifics on how you intend to improve relations with these ADCs?

Second, why do you single out Mexico, particularly in light of the Congress' recent determinations concerning Mexico's deep involvement in the illegal drug trade?

AMB. WOODS: A.I.D. staff have been engaged in internal discussions on what the most appropriate relationship between the United States and select advanced developing countries should be. The basic idea is to preserve and extend the valuable relationships forged under traditional A.I.D. programs as these countries approach full ADC status. Having made a substantial development investment in these countries, it is in neither our interest nor theirs to simply walk away.

I mentioned Mexico simply as an example of what we are trying to accomplish. In 1968, due to the relative sophistication of Mexican institutions and Mexico's excellent economic situation before the recent debt crisis, our bilateral assistance program was terminated by joint agreement. However, there continued to be a high level of interest between U.S. and Mexican institutions in developing joint programs. During the 1980s, A.I.D. has been instrumental in promoting cooperative efforts through activities such as short-term training programs, joint research activities, and joint U.S.-Mexican programs to stimulate the transfer of technology. Although these programs are almost exclusively with non-governmental institutions, they are considered integral parts of our Mexican policy and yield high payoffs in building goodwill and positive relations between our two countries.

## DEOB-REOB AUTHORITY

SENATOR KASTEN: Your request for deob-reob authority for FY 1989 is $25 million -- $12.5 million for DA, and $12.5 million for ESF. Do you expect that this request will be adequate to cover your actual use of this authority in FY 1989?

AMB WOODS: The Agency cannot project with precision the extent of future use of deob-reob authority until specific plans are developed by program managers. For that reason, our request is our best estimate of use of this authority. It is worth noting, however, that while our prior annual usage of deob-reob authority has exceeded $25 million, in FY 1989 we expect much of our pipeline to consist of funds obligated during FY 1987 and FY 1988 which, if deobligated, remain available until expended and do not require deob-reob authority. Our estimate is that only 40 percent of the pipeline will be subject to deob-reob authority.

SENATOR KASTEN: Please give us examples of how this authority has been used.

AMB. WOODS: As examples of our use of this authority, in FY 1987 we deobligated $23 million in Indonesia from a number of non-performing projects and reobligated these funds to the Agriculture and Rural Sector Support program to help the Indonesian government institute fundamental long-term policy reforms. In Egypt, we reobligated $9.5 million to a water/wastewater construction project, a program which has reduced sewage flooding and significantly improved service to millions of residents.

## PAY SUPPLEMENTS

SENATOR KASTEN: Have foreign nationals who are A.I.D. employees been involved in deciding who receives pay supplementals.

AMB. WOODS: Based on a recent salary supplement survey, in July 1987, no foreign nationals who are A.I.D. employees have been involved in deciding who receives pay supplements.

## REFUGEE PROGRAMS

SENATOR KASTEN: Mr. Woods, should you be asked to do so by Congress, are you prepared to involve A.I.D. more in U.S. refugee programs?

AMB. WOODS: In 1984, a State/A.I.D. agreement concluded that the Office of Refugee Programs (RP) in the Department of State should retain its responsibility for administering refugee programs abroad, but that RP and A.I.D. should develop individually tailored operating arrangements for special refugee situations. A.I.D. and State/RP collaborate on a continuing basis on many aspects of refugee assistance in developing countries. As a result, A.I.D. provides some assistance to refugees through the disaster relief program and through private voluntary organizations.

In the past, A.I.D. has also funded a series of inter-regional research studies and evaluations of refugee assistance activities in Africa, Asia and Central America in support of the State/RP program.

## MISMANAGEMENT IN COSTA RICA

SENATOR KASTEN: Mr. Ink, while this matter was covered in some detail during Tuesday's hearing, how do *you* explain Washington management's near total ignorance of the gross mismanagement which the Inspector General uncovered in Costa Rica?

MR. INK: Overall I think the Costa Rican program is a strong program with some major successes. Washington oversight of the program has been active, although I agree that the Inspector General's report usefully brought out certain management deficiencies of which we were not aware.

I believe that Washington kept itself well informed on Costa Rican progress in stimulating private investment, nontraditional exports and divestiture. These are areas in which, unlike the Office of Inspector General, we believe major progress has been made, some of it pioneering in nature. I believe the A.I.D. Mission is to be commended for this progress despite the fact that mistakes were made, a problem that often accompanies innovative programs which expand rapidly.

Other points raised by the report, such as irregularities in handling of several participant training cases, are valid cases of mismanagement. These cannot be excused by rapid expansion of innovative programs, and I find them very disturbing. As indicated in the enclosure to the Administrator's letter of February 26, 1988, to you and Senator Inouye, I believe Washington oversight of that training program has been uneven; some of it has been good, and some of it has been deficient.

CINDE made major progress in promoting nontraditional exports which have increased greatly in Costa Rica. The Inspector General's report, however, does reveal some issues related to CINDE of which we were not aware. There were also other management problems flagged by A.I.D. prior to the Inspector General's review which were not mentioned in the letter, including the need to broaden the base of private sector participation, the problem of duplicative boards, the need for a clear-cut manager (by whatever title), and the need for a five-year plan toward much greater financial self-sufficiency. In regard to CINDE, I do not agree with the allegation that the Mission allowed business and professional leaders who formed this very successful non-profit organization to use CINDE for political gain.

I should note that many corrective actions have been taken by the Agency, the Bureau and the Mission, some before the Inspector General's review, others as a result of that review, many of which were listed in the enclosure to the Administrator's letter. Some of these grew out of Washington oversight during the latter part of the period covered by the report. Knowing that there have been management weaknesses for some time, over the past two years we have strengthened our monitoring, and the report enclosed to Ambassador Woods' letter attempts to describe the oversight roles which now exist in various bureaus and offices in the Agency.

I think it is clear that transaction-by-transaction oversight by Washington concerning diversified programs (such as the participant training program example) scattered among missions located in different foreign countries is neither possible nor desirable. Under a decentralized system, the Mission Director is expected to have the experience and judgment to handle individual actions within policy guidance. In the vast majority of cases, this is done. Occasionally, there are individual failures. The Office of the Inspector General is, by design, far better equipped to ferret out these individual instances of specific transaction failures than the geographic bureaus who do not have this investigative staff or expertise. Where there is a pattern of program-related management deficiencies, however, our Bureau should uncover such problems. Generally this has occurred, but not always.

Finally, I would note that although A.I.D. has some of the most innovative and courageous operational senior career people I have seen anywhere in the government--and there are many examples of this excellence--A.I.D. is not an agency which has given adequate priority to administrative management over the years. Both the Mission operations and the Washington oversight of those operations have been handicapped by that circumstance. Mr. Woods is moving to correct this serious problem.

## QUESTIONS SUBMITTED BY SENATOR D'AMATO

### CYPRUS

SENATOR D'AMATO: The Republic of Cyprus recently elected a new president, who has breathed new life into peace efforts on that divided island-nation. President Vassiliou has offered to dismantle Cyprus' defense forces to help foster peace. In light of this new effort to resolve the disputes on Cyprus, do you believe the Administration should reduce economic assistance to that nation?

AMB. WOODS: President Vassiliou's position on troop presence in Cyprus is not linked in our mind to United States aid to Cyprus. Regarding the level of aid provided to Cyprus, the U.S. has been generous. However, we have recommended lesser amounts of ESF for Cyprus for the past few years based on our assessment that Cyprus is prospering, particularly relative to other, more needy areas of the world. At present, under the current program of $15 million, we are committed to a number of ongoing projects in Cyprus. But for the next fiscal year, a reduction to $3 million would enable us to meet existing obligations adequately.

### AFGHANISTAN CROSS BORDER HUMANITARIAN ASSISTANCE

SENATOR D'AMATO: For the past three years, the Congress has substantially increased A.I.D.'s request for humanitarian assistance to the Afghan people. Last February, the Senate unanimously adopted a resolution, S. Res. 386, calling for "increased U.S. humanitarian assistance to the Afghan people both during and following the withdrawal of Soviet and Soviet bloc forces from Afghanistan." In view of the enormous humanitarian crisis facing the Afghan people, do you believe that your request for $45 million for FY 1989 is truly adequate?

AMB. WOODS: The $45 million request for FY 1989 was made prior to the Soviet decision to withdraw its troops. Whether an increased level of funding is required will be largely determined by the rate at which the refugees return to Afghanistan and the financial response of other bilateral and multilateral donors.

Should there be a massive return in FY 1989, the U.S. Government, other donor governments, and the United Nations agencies will need to cooperate to ensure that conditions inside Afghanistan are such that the refugees are able to sustain themselves. This means, in part, ensuring that food is available until the productive capacity of the agricultural sector can be restored to a reasonable level.

We believe we can contribute to food security by increasing the amount of P.L. 480 wheat that we provide inside Afghanistan. In addition, we believe increased resources should be provided by the international donor community. We are promoting a coordinated relief effort through multilateral institutions and urging other donors (and private voluntary organizations) to contribute generously. To date, the U.S. Government has been the only donor with a significant cross border program.

SENATOR D'AMATO: If Soviet forces do in fact withdraw from Afghanistan over the next year, the people of Afghanistan will be faced with substantial humanitarian needs. How does A.I.D. intend to address the impending need for substantially greater resources to assist the Afghan people?

AMB. WOODS: A.I.D. is faced with severe budget constraints. Therefore, in addressing the need for substantially greater resources, we will have to set priorities carefully and utilize resources creatively.

We intend to supplement the $45 million requested in the FY 1989 Congressional Presentation with increased donations of P.L. 480 food. To expand further the amounts of assistance available to Afghanistan, we are appealing to bilateral and multilateral donors to contribute generously. (The U.S. assistance to Afghanistan is now considerably larger than other traditional donors.) Donors will be urged to coordinate their efforts carefully to guard against program duplication and to ensure the most efficient use of all available resources.

SENATOR D'AMATO: Does the Administration plan to put together an emergency humanitarian assistance package to assist with the resettlement of the more than 5 million Afghan refugees?

AMB. WOODS: The United Nations Secretary General has appointed a Special Coordinator for Afghanistan to ensure a cooperative and cost effective UN approach to the refugee issue. One of his tasks will be to ensure that the agency with the relevant expertise takes the lead on specific tasks related to resettlement and, later, the reconstruction. For example, we expect the United Nations High Commissioner for Refugees (UNHCR) will have the primary responsibility for supporting the movement of refugees from camps in Pakistan to their home regions inside Afghanistan and for providing the inputs to return their fields to productivity. A.I.D. is assisting the UNHCR with planning its resettlement program and will contribute P.L. 480 food to support resettlement.

A.I.D.'s primary objective will be to facilitate and assist in the orderly return of refugees to their homes by improving conditions inside Afghanistan. The immediate concern will be food security. Also high on the list of priorities will be restoring the productive capacity of the agricultural sector.

A.I.D. has existing programs in the food and agricultural sectors which will help address the immediate needs of the Afghan people. In addition, we are supporting and will continue to support education and health programs which have longer term benefits.

We will review the desirability of possible additional U.S. assistance as events unfold, requirements become better defined, and the role of other donors is established.

## QUESTIONS SUBMITTED BY SENATOR SPECTER

### WEST BANK AND GAZA

SENATOR SPECTER: What steps can be taken to increase "quality of life" funding for Palestinians in the West Bank and Gaza Strip?

AMB. WOODS: Congress has already concurred with A.I.D.'s reprogramming of funds from the Syria Termination Account to increase FY 1988 funding for its quality of life programs in the West Bank and Gaza. A.I.D. will send an additional notification to the Congress in the near future for reprogramming additional funds for the West Bank and Gaza. A.I.D. has requested $7.5 million for this program in FY 1989.

These funding levels will allow us to support the ongoing programs of U.S. and Palestinian private voluntary organizations (PVOs) in the Occupied Territories, and will allow some new PVO programs and new A.I.D.-managed activities that encourage the expansion of the Palestinian private sector. These levels of activity are the maximum that A.I.D. is able to manage under present conditions.

### ARAB AND ISRAELI AID TO AFRICA

SENATOR SPECTER: How much bilateral assistance is provided by each of the Arab states to African nations? By Israel? By the United States? How do contributions compare as a percentage of each nation's gross national product?

AMB. WOODS: The Arab/Organization of Petroleum Exporting Countries (OPEC) countries disbursed $509 million in aid to sub-Saharan countries in 1986. Saudi Arabia and Kuwait together provided 94 percent of OPEC aid worldwide. Saudi aid represented 4.5 percent of its GNP in 1986 while Kuwaiti aid was 3.0 percent of GNP. The following table shows the principal recipients of Arab/OPEC aid to Africa from 1984-1986.

Arab/OPEC Aid to Sub-Saharan Africa
(Net Disbursements - $ millions)

| Recipient | 1984 | 1985 | 1986 |
|---|---|---|---|
| Sudan | 121.5 | 215.1 | 207.7 |
| Mauritania | 64.1 | 58.4 | 40.4 |
| Senegal | 60.6 | 44.8 | 44.1 |
| Somalia | 16.2 | 38.2 | 4.6 |
| Mali | 10.1 | 30.9 | 41.2 |
| Djibouti | 43.2 | 19.1 | 35.8 |
| Kenya | 31.2 | 21.9 | 4.1 |
| Other | 214.7 | 232.6 | 131.3 |
| Totals | 561.6 | 661.1 | 509.2 |

Israel's worldwide aid disbursements totaled $10 million in 1986. This represents 0.04 percent of its GNP. We estimate that about one-third of Israeli assistance went to Africa with Zaire, Cameroon and Liberia being the principal recipients.

The United States in FY 1988 is providing $850 million in assistance to sub-Saharan Africa. This total includes: Development Fund/Economic Support Fund, $648 Million; P.L. 480 Title I, $103 million; P.L. 480 Title II, $99 million. Total United States development assistance provided on a worldwide basis represents 0.23 percent of the United States GNP.

## SUBCOMMITTEE RECESS

Senator INOUYE. We will now stand in recess until 10 a.m., Thursday, May 12, and at that time we will receive testimony from selected A.I.D. witnesses on the functioning of the American schools and hospitals abroad program, international disaster assistance, the Office of A.I.D. Inspector General, private sector initiatives and housing and other credit guaranty programs.

Thank you very much, sir.

[Whereupon, at 11:40 a.m., Thursday, April 28, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 12, 1988.]

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# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

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THURSDAY, MAY 12, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:08 a.m., in room S-128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Mikulski, and D'Amato.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### BUREAU FOR PRIVATE ENTERPRISE

**STATEMENTS OF:**

**HON. NEAL PEDEN, ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**HON. JULIA V. TAFT, DIRECTOR, OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**HON. DAVID A. SANTOS, DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**HON. HERBERT BECKINGTON, INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**HON. PETER KIMM, DIRECTOR, OFFICE OF HOUSING AND URBAN PROGRAMS, BUREAU FOR PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**ACCOMPANIED BY JAMES B. DURNIL, DEPUTY INSPECTOR GENERAL**

### OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. This morning the subcommittee continues its examination of the President's request for fiscal year 1989 funding of foreign assistance programs, and today we will turn our attention to some of the smaller but still quite important programs managed by A.I.D., and we will hear from a series of A.I.D. officials who serve as the managers and directors of these programs.

## INTRODUCTION OF WITNESSES

Appearing before the subcommittee this morning is the Honorable Neal Peden, Assistant Administrator in the Bureau for Private Enterprise; the Honorable Julia Taft, Director of the Office of Foreign Disaster Assistance; the Honorable David Santos, Director of the American Schools and Hospitals Abroad Program; the Honorable Herbert Beckington, A.I.D. Inspector General; and the Honorable Peter Kimm, Director of the Office of Housing and Urban Programs.

I would like to thank all of you for joining us this morning, and we have your prepared statements, and all of them will be entered in full in the record. If you would like to make any opening remarks, please do so, and we would like to begin with Ms. Peden.

Welcome.

## PRIVATE ENTERPRISE INITIATIVE

Ms. PEDEN. Thank you. I am very glad, Mr. Chairman, to have the opportunity to discuss the Private Enterprise Initiative of the Agency for International Development.

The prepared statement includes an overview of our initiative as conducted agencywide. I believe this overview underlines the point that the use of market-based approaches to solve development problems is now pervasive in the agency and engages the resources and the energies of all of the bureaus and the field missions.

In my brief remarks today, I would like to focus on that part of the statement dealing with my own bureau's role in advancing the private enterprise initiative. In particular, I would like to discuss with you the additional guarantee authority for the Private Sector Revolving Fund that the administration has requested.

## BUREAU FUNCTIONS

Basically, the Bureau for Private Enterprise serves as a catalyst for this initiative. As a central bureau with a global perspective, we are well positioned to help keep up that momentum toward market-based growth by generating market-oriented ideas and approaches. One of our major instruments for performing this service is the Private Sector Revolving Fund, and we are proud of that fund's achievements since its establishment by Congress in late 1983. These include demonstrating—to missions and host country institutions alike—the feasibility of lending to small indigenous businesses at market rates. Through the fund we have also adapted sophisticated financial instruments, such as venture capital mechanisms to Third World situations; and we have promoted commercialization and transfer of technology in developing countries. We have used the revolving fund to leverage scarce A.I.D. dollars by attracting outside private capital to development projects at a ratio of up to 1 to 4. We have also developed an invaluable resource of international banking expertise for the agency.

GUARANTEE AUTHORITY

Nevertheless, in order to realize its full potential and to make a deeper impact on mission programs, the revolving fund needs a stronger resource base, and for this reason, the administration is requesting a guarantee authority for the fund in addition to its direct dollar loans. This authority will mobilize up to $100 million for private sector programming worldwide without requiring corresponding increases in outlays or appropriations, and we think that makes a lot of sense.

For one thing, it will give us a stronger hand in helping missions work with local financial institutions to open credit to small enterprises. Our experience tells us that LDC banks hesitate to extend credit to this sector, not because of the banks' lack of cash to lend, but because of the perceived risk of dealing with borrowers with limited assets.

The guarantee authority would address this risk factor by authorizing A.I.D. through guarantees to cover up to half of the risk of sub-loans. This authority would also allow us to bring more financial weight to the table in approaching the banks, increasing the likelihood that the banks will decide to join us in exploring the small enterprise market, which has great ability to generate jobs and income, especially among the poor and the near-poor.

Finally, the use of guarantees rather than additional dollar outlays makes sense at a time of increased demands on A.I.D. funds, and a stretching thin of the A.I.D. dollar.

As mentioned in my written statement, we believe the guarantee proposal contains ample protection for A.I.D. All guarantees would be backed by a reserve fund in Treasury at a ratio of one reserve dollar to four dollars of contingent liability. Since the loss record on loans made from the revolving fund to date is less than 2 percent, the 25 percent reserve provision seems very conservative.

The congressional mandate for the fund will not change, but would be preserved under the guarantee and would be reinforced because of the larger resources that would be brought to bear.

In summary, Mr. Chairman, we believe that the revolving fund has proved itself to be an effective force for development, but we also believe that it has not been able to realize its full potential or to make its impact felt sufficiently in the field due to its limited resources. The guarantee authority would give the fund these resources, would help spread the private enterprise initiative, and would strengthen Third World private enterprise on which self-sustaining growth relies.

Thank you.

[The statement follows:]

# STATEMENT OF NEAL PEDEN

ASSISTANT ADMINISTRATOR

BUREAU FOR PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM GLAD TO HAVE THIS OPPORTUNITY TO REPORT TO YOU ON THE PRIVATE ENTERPRISE INITIATIVE OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

MY STATEMENT HAS THREE PARTS. THE FIRST DEALS WITH THE RATIONALE OF USING PRIVATE ENTERPRISE AS A DEVELOPMENT ENGINE. THE SECOND PART LOOKS AT THE INITIATIVE FROM THE STANDPOINT OF AN AGENCY-WIDE EFFORT DRAWING ON THE RESOURCES OF ALL BUREAUS AND MISSIONS. THE FINAL SECTION CONCENTRATES IN SOME DETAIL ON MY OWN BUREAU FOR PRIVATE ENTERPRISE, INCLUDING ITS ROLE IN THE INITIATIVE, RECENT ACTIVITIES, AND PROPOSED INITIATIVES.

## RATIONALE FOR THE INITIATIVE

LET ME SAY AT THE OUTSET THAT THE ENCOURAGEMENT OF MARKET FORCES AND ACTIVE INDIGENOUS PRIVATE SECTORS TO STIMULATE GROWTH IS NOW PERVASIVE IN A.I.D. STRATEGY FORMULATION AND PROGRAMMING. STARTING IN 1981 AS A DEPARTURE FROM THE AGENCY'S HISTORICAL GOVERNMENT-TO-GOVERNMENT APPROACH, THE INITIATIVE TODAY ENJOYS WIDE RECOGNITION IN THE FIELD AS A PROVEN DEVELOPMENT TOOL THAT IS ESPECIALLY WELL SUITED TO THE ATTAINMENT OF SELF-SUSTAINING GROWTH. THIS RECOGNITION EXTENDS

BEYOND OUR OWN FOREIGN ASSISTANCE PROGRAM TO OTHER DONOR NATIONS, TO MULTILATERAL DONOR ORGANIZATIONS, AND, MOST IMPORTANT, TO MANY HOST COUNTRY GOVERNMENTS WHICH MAKE THE LAWS AND ENFORCE THE REGULATIONS UNDER WHICH THEIR EMERGING ENTREPRENEURIAL SECTORS MUST OPERATE. THEREFORE, IN CONTRAST TO THE SITUATION SEVEN YEARS AGO WHEN A.I.D.'S INITIATIVE WAS BEGUN, PRIVATE ENTERPRISE HAS BECOME PART OF THE DEVELOPMENT MAINSTREAM AND SEEMS LIKELY TO PERSIST AS AN ESSENTIAL TOOL OF DEVELOPMENT INTO THE FUTURE.

EARLY CONCERNS THAT THE INITIATIVE MIGHT CONFLICT WITH EXISTING A.I.D. GOALS, SUCH AS THE BASIC HUMAN NEEDS MANDATE, HAVE LARGELY BEEN PUT TO REST. RATHER, A.I.D. MISSIONS AND THEIR WASHINGTON SUPPORT SYSTEMS INCREASINGLY HAVE SHOWN IMAGINATION IN HARNESSING MARKET-BASED MECHANISMS TO THE ACHIEVEMENT OF THOSE SAME GOALS. THE INITIATIVE REINFORCES THE TRADITIONAL THRUST OF DEVELOPMENT IN SEVERAL WAYS.

--- ITS EMPHASIS ON GENERATING JOBS AND INCOMES INDEPENDENT OF GOVERNMENT SUBSIDIES AND OVERBURDENED NATIONAL BUDGETS HELPS TO GENERATE SELF-SUSTAINING, DURABLE GROWTH;

--- THIS SAME JOBS-AND-INCOME STRATEGY INCREASES THE PURCHASING POWER OF THE POOR AND NEAR-POOR, ENABLING THEM TO MEET BASIC HUMAN NEEDS BY THEIR OWN EFFORTS AND CHOICES;

--- THE INITIATIVE ENCOURAGES MICRO-ENTERPRISE DEVELOPMENT (A SPECIAL CONCERN OF CONGRESS) WHICH BROADENS THE BASE OF ECONOMIC PARTICIPATION AND ECONOMIC BENEFITS;

--- ITS FIELD-TESTING OF PRIVATE SECTOR DELIVERY OF SERVICES, NEW TO MUCH OF THE DEVELOPING WORLD, HAS BROUGHT HEALTH CARE, TRAINING, EDUCATION, AGRICULTURAL TECHNIQUES AND

OTHER BENEFITS TO INDIGENOUS GROUPS MORE EFFICIENTLY, RELIABLY AND OFTEN AT LESS COST THAN PUBLIC SECTOR VEHICLES.

--- COUNTRIES WHICH HAVE USED MARKET-BASED GROWTH TO PROPEL THEMSELVES INTO NEWLY INDUSTRIALIZED STATUS ENJOY TIES WITH OLDER INDUSTRIAL COUNTRIES THAT STIMULATE INVESTMENT, EXPORT GROWTH, SCIENTIFIC AND TECHNOLOGY TRANSFERS AND OTHER BENEFITS TO THE POPULATION AT LARGE.

IN SUMMARY, THE USE OF MARKET FORCES TO ALLOCATE RESOURCES IS MOST LIKELY TO PRODUCE THE SUSTAINED ECONOMIC GROWTH WHICH, THIRD WORLD SUCCESS STORIES DEMONSTRATE, IS STRONGLY LINKED TO DEVELOPMENT ACROSS THE BOARD. AS A.I.D. ADMINISTRATOR ALAN WOODS POINTED OUT IN HIS STATEMENT IN THE FY 1989 CONGRESSIONAL PRESENTATION: "WHERE ECONOMIC GROWTH HAS BEEN RAPID AND WHERE PARTICIPATION IN THAT GROWTH HAS BEEN BROADLY BASED, FAMILY INCOME, FOOD AVAILABILITY, LIFE EXPECTANCY AND OTHER MEASURES OF DEVELOPMENT HAVE REGISTERED IMPRESSIVE GAINS."

## AGENCY-WIDE EFFORT

A.I.D.'S PRIVATE ENTERPRISE INITIATIVE INVOLVES ALL OF ITS BUREAUS AND OVERSEAS MISSIONS AND THEIR RESOURCES.

THE MISSIONS, WORKING WITH HOST COUNTRY GOVERNMENTS AND PRIVATE SECTORS, ARE RESPONSIBLE FOR DEVISING THE STRATEGIES FOR AND CARRYING OUT MOST OF A.I.D.'S PRIVATE SECTOR ACTIVITIES. OBVIOUSLY, THE SUCCESS OR FAILURE OF ANY A.I.D. EFFORT MUST BE PLAYED OUT IN THE FIELD.

THE BUREAU FOR PROGRAM AND POLICY COORDINATION (PPC) PROVIDES THE POLICY FRAMEWORK FOR ALL PRIVATE SECTOR ACTIVITY.

THE BUREAU FOR PRIVATE ENTERPRISE (PRE) ACTS AS A CATALYST FOR THE INITIATIVE BY PROVIDING IDEAS, TECHNICAL SUPPORT AND PROTOTYPE PROJECT IDEAS TO THE REST OF THE AGENCY. I WILL ELABORATE ON THIS LATER.

THE REGIONAL BUREAUS - BUREAU FOR AFRICA (AFR), BUREAU FOR ASIA AND NEAR EAST (ANE), AND BUREAU FOR LATIN AMERICA AND THE CARIBBEAN (LAC) - PROVIDE AREA-SPECIFIC STRATEGY GUIDANCE AND TECHNICAL SUPPORT TO MISSIONS IN PRIVATE SECTOR MATTERS.

THE BUREAU FOR SCIENCE AND TECHNOLOGY (S&T) SUPPORTS A WIDE RANGE OF RESEARCH AND DEMONSTRATION PROJECTS IN SMALL ENTERPRISE DEVELOPMENT. THE BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE (FVA) IS ALSO INVOLVED IN SMALL ENTERPRISE DEVELOPMENT THROUGH ITS RELATIONSHIP WITH THE PRIVATE VOLUNTARY ORGANIZATIONS (PVOS) AND INVOLVEMENT IN THE P. L. 480 SECTION 108 PROGRAM.

AS NOTED IN THE CONGRESSIONAL PRESENTATION, THE AGENCY-WIDE PRIVATE ENTERPRISE EFFORT HAS FOUR MAJOR COMPONENTS. THESE ARE:

1. POLICY REFORM TO IMPROVE THE ENVIRONMENT FOR PRIVATE SECTOR GROWTH AND ACTION. POLICY DIALOGUE WITH HOST GOVERNMENTS AND TECHNICAL ASSISTANCE TO SUPPORT THAT DIALOGUE ARE AIMED AT PROMOTING SUCH AN ENVIRONMENT AND ELIMINATING OR MODIFYING THE LAWS, RULES AND REGULATIONS STILL ON THE BOOKS OF MANY COUNTRIES THAT FAVOR THE PUBLIC SECTOR AND PENALIZE THE PRIVATE SECTOR.

2. PRIVATE ENTERPRISE DEVELOPMENT. THIS INVOLVES A.I.D. EFFORTS TO ENCOURAGE THE STARTUP AND EXPANSION OF MICRO, SMALL AND MEDIUM-SCALE PRIVATE ENTERPRISES AND TO STRENGTHEN

THE PRIVATE INSTITUTIONS AND FINANCIAL MARKETS THAT SERVE THEM. WIDER PARTICIPATION IN THE ECONOMY BY THESE ENTERPRISES NOT ONLY LEADS TO GROWTH BUT MAKES THEM PLAYERS IN THE POLICY DIALOGUE PROCESS, AUGMENTING A.I.D.'S OWN EFFORTS.

3. USE OF THE PRIVATE SECTOR AS A DELIVERY MECHANISM. A.I.D. RELIES ON PVOS AND COOPERATIVES AS WELL AS INDIGENOUS BUSINESSES TO DELIVER SERVICES RANGING FROM EDUCATION AND TRAINING TO HEALTH CARE AND FAMILY PLANNING.

4. PRIVATIZATION OF GOVERNMENT-OWNED OR -CONTROLLED ENTERPRISES OR FUNCTIONS. TRANSFER OF THESE ASSETS TO THE PRIVATE SECTOR IS AN AREA WHERE A.I.D. HAS EXERCISED CONSIDERABLE LEADERSHIP. THIS WAS HIGHLIGHTED BY THE A.I.D.-SPONSORED INTERNATIONAL CONFERENCE ON PRIVATIZATION TWO YEARS AGO AND IS UNDERLINED BY THE CONTINUAL POLICY DIALOGUE WITH, AND TECHNICAL SUPPORT TO, HOST GOVERNMENTS IN PLANNING FOR AND CARRYING OUT DIVESTITURES. PRIVATIZATION OF COSTLY, OFTEN INEFFICIENT GOVERNMENT MONOPOLIES, ESPECIALLY IN THE PRODUCTIVE SECTORS, IS ONE OF THE BOLD STROKES THAT DEVELOPING COUNTRIES CAN TAKE TO OPEN UP THEIR ECONOMIES TO COMPETITION, NEW PRODUCTS, AND GROWTH.

A.I.D. MISSIONS, WORKING WITH HOST GOVERNMENTS, HAVE REPORTED OVER 100 PRIVATIZATION ACTIVITIES. WE STRONGLY EMPHASIZE PRIVATIZATION RATHER THAN TECHNICAL ASSISTANCE TO IMPROVE THE PERFORMANCE OF EXISTING PUBLIC ENTERPRISES, WHICH, EXPERIENCE DEMONSTRATES, RARELY GETS RESULTS.

THE TERRITORY COVERED BY THESE FOUR COMPONENTS POINTS UP THE BROAD SCOPE OF THE PRIVATE ENTERPRISE INITIATIVE. RATHER THAN BEING CONFINED TO ANY ONE "SECTOR", THE USE OF MARKET FORCES RANGES ACROSS ALL SECTORS AND GIVES FIELD MISSIONS AN

INSTRUMENT FOR ACHIEVING RESULTS IN MANY DEVELOPMENT AREAS. AN AGENCY SURVEY OF 63 SELECTED PRIVATE ENTERPRISE PROJECTS IN 30 COUNTRIES - PUBLISHED IN THE 1987 REPORT, "ECONOMIC GROWTH AND THE THIRD WORLD" - FOUND WIDE-RANGING ACTIVITY IN ALL REGIONS AND DEFINITE PROGRESS IN THE AREAS OF POLICY REFORM, CREDIT TO SMALL BORROWERS, AGRIBUSINESS DEVELOPMENT, HEALTH CARE, INVESTMENT AND EXPORT PROMOTION AND TECHNOLOGY TRANSFER.

THE INITIATIVE'S BROAD SCOPE ALSO UNDERSCORES THE DESIRABILITY OF ENLISTING ALL OF A.I.D. IN ITS FORMULATION AND IMPLEMENTATION. THIS NOT ONLY MULTIPLIES RESOURCES DEVOTED TO THE INITIATIVE BUT PROVIDES A SYNERGISM OF APPROACHES AND IDEAS. IN WASHINGTON, THE PRIVATE ENTERPRISE SECTOR COUNCIL, CHAIRED BY THE BUREAU FOR PRIVATE ENTERPRISE, IS ALSO COMPRISED OF PRIVATE SECTOR OFFICERS OF OTHER BUREAUS AND SHARES INFORMATION, DISCUSSES NEW IDEAS AND PROPOSES INITIATIVES AS APPROPRIATE TO A.I.D. SENIOR STAFF.

TO ILLUSTRATE THE SWEEP OF THE INITIATIVE IN THE GEOGRAPHIC REGIONS SERVED BY A.I.D., A SUMMARY OF PRIVATE SECTOR ACTIVITIES BY BUREAUS OTHER THAN THE BUREAU FOR PRIVATE ENTERPRISE FOLLOWS.

GROWTH THROUGH THE PRIVATE SECTOR IS THE OBJECTIVE OF ACTIVITIES OF THE BUREAU FOR AFRICA (AFR), AN EFFORT AIDED BY A TREND IN AFRICA TOWARD A NEW ECONOMIC PRAGMATISM RATHER THAN RELIANCE ON THE STATE AS THE SOLE MECHANISM FOR DEVELOPMENT.

PRIVATE SECTOR ACTION IN AFRICA INCLUDES IMPLEMENTATION OF THE DEVELOPMENT FUND FOR AFRICA, THE FLEXIBLE AID TOOL APPROVED IN 1987 WHICH CONCENTRATES RESOURCES IN COUNTRIES AND PROGRAMS WHERE RESULTS ARE MOST LIKELY TO OCCUR. PRIVATE SECTOR GOALS FOR THIS FUND ARE TO IDENTIFY AND DESIGN

APPROACHES TO ACHIEVE HIGHER BROAD-BASED GROWTH RATES THROUGH OPEN AND COMPETITIVE MARKETS.

SINCE BROAD-BASED ECONOMIC GROWTH REQUIRES AN ABILITY TO MOBILIZE AND INVEST CAPITAL, THE BUREAU'S PRIVATE SECTOR ACTIVITIES FOCUS ON ADDRESSING THE MARKET IMPERFECTIONS THAT IMPEDE THIS PROCESS. THESE CONSTRAINTS INCLUDE CONCENTRATED CAPITAL, LIMITED ACCESS, HIGH TRANSACTION COSTS, IMPEDIMENTS TO SAVINGS (SUCH AS REGULATED INTEREST RATES), INFLATION AND LIMITED CHOICE OF FINANCIAL INSTRUMENTS. PART OF THE EFFORT INVOLVES CREATIVE APPLICATIONS OF FINANCIAL INSTRUMENTS TO STRENGTHEN INSTITUTIONS IN ORDER TO MOBILIZE SAVINGS, EXPAND CREDIT AND FORGE LINKS BETWEEN RURAL AND URBAN MARKETS. AMONG THESE INSTRUMENTS IS THE ENTIRE RANGE OF DEBT CONVERSION POSSIBILITIES. MARKET DEVELOPMENT WILL ALSO INVOLVE LOOKING AT INFORMAL AS WELL AS FORMAL MARKETS.

A.I.D. MISSIONS IN AFRICA WILL LOOK AT THE GROWTH OF MARKET TOWNS AND THE URBANIZATION PROCESS AS IT AFFECTS SMALL ENTERPRISES, JOB EXPANSION AND THE GROWTH OF FINANCIAL MARKETS. THE QUESTION OF RAPIDLY GROWING MARKET CENTERS WILL BE A MAJOR PART OF PRIVATE SECTOR ASSESSMENTS UNDERTAKEN BY AFRICA MISSIONS IN THE NEXT TWO YEARS. THESE ASSESSMENTS ARE USED BY THE MISSIONS TO DESIGN COUNTRY-SPECIFIC STRATEGIES AIMED AT POLICY REFORM AS WELL AS TO IDENTIFY HOW A.I.D. RESOURCES CAN BE PROGRAMMED TO ACHIEVE MORE RAPID GROWTH.

THE AFRICA BUREAU WILL CONTINUE TO PURSUE MAJOR REFORM PROGRAMS IN INDIVIDUAL COUNTRIES THROUGH THE AFRICAN ECONOMIC POLICY REFORM PROGRAM (AEPRP), ESPECIALLY IN BANKING AND PRIVATIZATION.

ONE THRUST OF PRIVATE ENTERPRISE ACTIVITIES CARRIED OUT

BY THE BUREAU FOR ASIA AND NEAR EAST (ANE) CAN BE OBSERVED FROM DISCUSSIONS AT THE BUREAU'S CONFERENCE DEVOTED SOLELY TO TRADE AND INVESTMENT, HELD IN JAKARTA IN MARCH.

THE CONFERENCE FOCUSED ON THE ECONOMIC AND DEVELOPMENTAL NEED FOR THE BUREAU'S COOPERATING COUNTRIES TO ACHIEVE MORE MATURE TRADE AND INVESTMENT RELATIONSHIPS WITH ADVANCED DEVELOPING COUNTRIES (ADCs) AND ON ENCOURAGING THESE COUNTRIES TO PLAY CONSTRUCTIVE TRADE ROLES.

PRIVATE SECTOR REPRESENTATIVES PARTICIPATED IN THE CONFERENCE. THEIR COMMON THEME WAS THAT MISSIONS SHOULD SUPPORT INCREASED EFFORTS TO REDUCE BUREAUCRATIC CONTROLS AFFECTING INVESTMENT AND TRADE AND TO HELP "LEVEL THE PLAYING FIELD" VIS-A-VIS OTHER COMMERCIAL INTERESTS. PRIVATE SECTOR TRAINING PROGRAMS, PROGRAMS WHICH PROMOTE FINANCIAL MARKET DEVELOPMENT, AND COMMERCIALIZATION OF TECHNOLOGY EFFORTS WERE CITED AS POSSIBLE APPROACHES FOR REPLICATION IN THE ANE MISSIONS. IN OTHER ACTIVITIES, EGYPT'S SUCCESSFUL USE OF EMPLOYEE STOCK OWNERSHIP PLANS (ESOP) IN PRIVATIZATION IS VIEWED AS THE FIRST NEAR EAST USE OF AN INSTRUMENT WHICH OTHER MISSIONS MAY USE TO REDUCE THE PUBLIC SECTOR BIAS AGAINST PRIVATIZATION IN LESS OPEN ECONOMIES. THE EGYPT MISSION IS BUILDING ON AN INCREASED GOVERNMENT INTEREST IN PRIVATIZATION BY TESTING THE PROCESS IN SELECTED AREAS.

THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN) HEADS OF GOVERNMENT AT THEIR SUMMIT IN MANILA HAVE SHOWN INTEREST IN CONCENTRATING A.I.D. SUPPORT IN THE AREAS OF INCREASED TRADE AND INVESTMENT AND TECHNOLOGY TRANSFER. THE ANE BUREAU IS DEVELOPING SPECIFIC INTERVENTIONS WITH ASEAN WORKING COMMITTEES.

THE MISSION IN JORDAN IS SPEARHEADING A MAY 15-20 TRADE

AND INVESTMENT MISSION HEADED BY PRINCE HASSAN. THIS IS ONE OF A SERIES OF THE MISSION'S EFFORTS TO EXPAND JORDAN'S TRADE WITH THE U.S., CREATE FOREIGN EXCHANGE EARNINGS, AND INCREASE PRIVATE SECTOR EMPLOYMENT OPPORTUNITIES IN JORDAN.

THE BUREAU FOR LATIN AMERICA AND THE CARIBBEAN (LAC) PURSUES A DEVELOPMENT STRATEGY WHICH IS BASED ON THE INCREASED USE OF MARKET FORCES AND OPEN TRADING SYSTEMS. THE ELEMENTS OF THIS STRATEGY ARE (1) ECONOMIC STABILIZATION, (2) STRUCTURAL REFORMS PERMITTING RAPID AND SUSTAINED GROWTH, (3) WIDER SHARING OF THE BENEFITS OF GROWTH, AND (4) A STRENGTHENING OF DEMOCRATIC INSTITUTIONS AND RESPECT FOR HUMAN RIGHTS. THE LAC BUREAU ALSO SUPPORTS THE PRESIDENT'S CARIBBEAN BASIN INITIATIVE. TO CARRY OUT THE STRATEGY, LAC AND ITS MISSIONS EMPHASIZE THE PRIVATE SECTOR AS THE ENGINE OF INCREASED EMPLOYMENT, GREATER INVESTMENT OPPORTUNITIES AND OVERALL ECONOMIC GROWTH.

THE REGION'S PRIVATE SECTOR PROGRAM HAS THESE ELEMENTS:

--- POLICY REFORM TO REDUCE PRICE DISTORTIONS, STRENGTHEN THE ROLE OF THE PRIVATE SECTOR, AND ENCOURAGE EXPORT EXPANSION AND DIVERSIFICATION;

--- SUPPORT FOR INVESTMENT AND EXPORT PROMOTION. TWELVE A.I.D. MISSIONS IN THE REGION HAVE HELPED BUILD ORGANIZATIONS TO CARRY THIS OUT, USING TECHNICAL ASSISTANCE, FEASIBILITY AND MARKETING STUDIES, JOINT VENTURE BROKERING, AND BUDGET SUPPORT, OFTEN WITH LOCAL CURRENCY;

--- CREDIT AND BANKING SUPPORT, AN AREA WHERE THE LAC BUREAU HAS DISPLAYED LEADERSHIP AND INNOVATION DATING TO THE 1960S WITH ESTABLISHMENT OF THE LATIN AMERICAN AGRIBUSINESS

Development Corp. (LAAD) and several development finance companies. The focus is on local intermediaries which deliver term credit to private enterprises on a leveraged basis, stimulating production and job creation that otherwise are unlikely to occur. A LAC-sponsored development finance seminar this month will advance this development tool;

--- Micro and small business development. This is another area traditionally associated with the Bureau, which works with American and local PVOs to extend credit, training and technical assistance. The Bureau leads the Agency in micro-enterprise credit activity and in meeting the $50 million Congressional earmark for this sector;

--- Privatization. All LAC missions have developed strategies for divestiture of state-owned enterprises and most of them have studies or programs under way, often in close collaboration with the PRE Bureau's Center for Privatization.

--- Free zone and and industrial park development has grown throughout the region, thanks to A.I.D. technical assistance and local currency support. These zones and parks help stimulate the sub-assembly and export of manufactured products which generate jobs and diversify the economy, a key goal of the Caribbean Basin Initiative.

Representative LAC projects include: more than $13 million in loans and grants to Jamaica's Trafalgar Development Bank to provide term credit and equity to investors in the country's major industries; $7.7 million over four years to establish the Export Investment Promotion Center (PROMINEX) in Haiti, a project which included finalization of Haiti's customs code and improvement in its tariff reduction system and income tax law; and $1.5 million in loans and grants for the

Association for the Development of Private Enterprises (ADEMI), which has provided small working capital loans to more than 3,000 micro-enterprises in the Dominican Republic.

A.I.D.'s Bureau for Science and Technology (S&T) focuses its major private enterprise efforts on the small enterprise sector, using applied and basic research to build a solid knowledge base for programs to stimulate employment, generate income and boost productivity of the Third World poor.

In addition to research, which involves working closely with universities, consultants, PVOs, developing country institutions and other donors, S&T provides technical assistance to missions for strategy and project design and institution building.

One new project currently being designed targets micro-enterprises (generally 10 employees or less) which, S&T research has demonstrated, provide jobs for the majority of non-agricultural workers in developing countries. However, these very small enterprises often lack the technical, managerial, financial and marketing resources to stay in business, which limit their potential contribution to increasing national productivity. The project provides a number of support services, including surveys of credit demand and supply; training of host country nationals, PVOs and other technical support "wholesalers" in order to upgrade local delivery systems; project design and implementation, including use of local currencies; and research on selected micro-enterprise issues.

Another S&T project focuses on policy biases constraining small enterprise growth. Work thus far has

INCLUDED ANALYSIS OF TARIFF AND EXCHANGE RATE POLICIES IN SOMALIA; POLICIES IMPEDING THE GROWTH OF SMALL ENTERPRISES AND THE MEDIUM-SCALE SECTOR IN THE PHILIPPINES; AN EVALUATION OF THE A.I.D. MISSION'S PRIVATE SECTOR ACTIVITIES IN TUNISIA; PROJECT DESIGN FOR TECHNICAL COOPERATION ON MACRO-ECONOMIC POLICIES IN THE DOMINICAN REPUBLIC; AND LONG-TERM TECHNICAL ASSISTANCE REGARDING THE POLICY CLIMATE FOR SMALL, LABOR-INTENSIVE BUSINESSES IN BANGLADESH, RWANDA AND SRI LANKA.

THE BUREAU'S ARIES PROJECT (ASSISTANCE TO RESOURCE INSTITUTIONS FOR ENTERPRISE SUPPORT), WHICH SEEKS TO STRENGTHEN INTERMEDIATE INSTITUTIONS SERVING SMALL-SCALE AND MICRO-ENTERPRISES, HAS PROVIDED ASSISTANCE IN SOME 20 COUNTRIES SINCE ITS INCEPTION IN 1985.

UNDER S&T'S MARKET AND TECHNOLOGY ACCESS PROJECT, FIELD-TESTING IS UNDER WAY IN A HALF-DOZEN COUNTRIES ON WAYS TO PROMOTE COMMERCIAL VENTURES BETWEEN SMALL U.S. AND LDC FIRMS. PARTICULAR EFFORTS ARE BEING MADE TO COLLABORATE WITH U.S. STATE TRADE PROMOTION PROGRAMS IN PARTICULAR SECTORS, SUCH AS ENERGY, AGRIBUSINESS, FOREST PRODUCTS AND HEALTH.

IN ADDITION, THE SCIENCE AND TECHNOLOGY BUREAU WORKS WITH APPROPRIATE TECHNOLOGY INTERNATIONAL (ATI) TO STRENGTHEN THAT INSTITUTION'S CAPACITY TO ENCOURAGE THE CHOICE, DEVELOPMENT, TRANSFER AND COMMERCIALIZATION OF TECHNOLOGIES APPROPRIATE TO DEVELOPING COUNTRIES, ESPECIALLY THOSE RELEVANT TO SMALL ENTERPRISES WITH LIMITED RESOURCES.

## BUREAU FOR PRIVATE ENTERPRISE

THE BUREAU FOR PRIVATE ENTERPRISE (PRE) IS REQUESTING $25,550,000 FOR FY 1989. THIS INCLUDES $4,760,000 FOR THE

Office of Housing and Urban Programs, which will be discussed in separate testimony before the Subcommittee.

Established in 1981, the bureau serves as an idea generator and technical assistance arm for the initiative. As a central bureau, PRE enjoys a global perspective that cuts across regions, sectors and functional accounts. In addition, its funds are not committed to bilateral agreements and earmarks to the same degree as are regional bureau budgets. These factors give PRE a logical catalyst function in A.I.D. in encouraging the use of market-based approaches in the general run of agency programs.

The bureau performs this role in two ways: First, by generating prototype projects (through A.I.D.'s Private Sector Revolving Fund) for replication or adaptation in the field; and, second, by mobilizing U.S. private sector expertise to support mission programs and policy dialogue, chiefly through multi-year contracts to which missions can add their own funds. In addition, PRE officers frequently travel to the field to jointly design country-specific programs and advise missions on a wide range of private enterprise problems.

To help build a skills base within the agency for carrying out private enterprise programs, the bureau designed an intensive, two-week course for A.I.D. personnel, "The Role of the Private Sector in Development." Geared to real-life situations that A.I.D. officers encounter in the field, the course emphasizes both basic business skills training and decision-making and the macro-economic aspects of private enterprise development. Trainees therefore learn how market forces can work for them in their daily duties as well as in the context of their host countries' development strategies. We have held six course sessions since December 1984.

PROCESSING ABOUT 130 OFFICERS. FOLLOWUP QUESTIONNAIRES SENT TO THESE OFFICERS INDICATED WIDESPREAD SATISFACTION WITH THE COURSE AND ITS VALUE IN A.I.D. FIELD WORK. WE ARE NOW DESIGNING A SIMILAR COURSE TAILORED FOR GOVERNMENT OFFICIALS IN HOST COUNTRIES, WITH JORDAN SELECTED AS THE PILOT COUNTRY. THE COURSE WOULD BE DEVELOPED IN CONCERT WITH AT LEAST ONE LOCAL ACADEMIC INSTITUTION AND WOULD BECOME PART OF THE INSTITUTION'S REGULAR CURRICULUM. THE PRE BUREAU ALSO HAS SPONSORED THE TRAINING OF LAWYERS FROM DEVELOPING COUNTRIES THROUGH A GRANT TO THE INTERNATIONAL DEVELOPMENT LAW INSTITUTE (IDLI), BASED IN ROME. OUR FY 1989 REQUEST FOR ALL TRAINING ACTIVITIES IS $250,000.

FROM THE BEGINNING, PRE STAFF HAS BEEN KEENLY AWARE THAT THEIR ACTIVITIES MUST BE RELEVANT TO A.I.D.'S MAINSTREAM PROGRAMS AS CARRIED OUT BY THE MISSIONS, AND HAVE AN EFFECT ON THOSE PROGRAMS.

AN EARLY EFFORT TO WORK CLOSELY WITH THE MISSIONS WAS A SERIES OF PRE RECONNAISSANCE VISITS COORDINATED WITH MISSIONS TO ABOUT A DOZEN "TARGET" COUNTRIES, DURING WHICH U.S. PRIVATE SECTOR CONSULTANTS SURVEYED THE CLIMATE FOR MARKET-BASED INVESTMENTS BY THE BUREAU. THESE RESULTED IN SEVERAL LOAN PROJECTS. THE LAUNCHING OF A MISSION SUPPORT EFFORT IN 1983 PUT US ON CALL, IN EFFECT, FOR MISSION REQUESTS. THESE DEALT MAINLY WITH THE TAPPING OF AMERICAN BUSINESS AND BANKING EXPERTISE TO HELP ADDRESS THE INVESTMENT ENVIRONMENT, CAPITAL MARKET DEFICIENCIES AND OTHER PRIVATE SECTOR DEVELOPMENT PROBLEMS. ALTHOUGH IT STARTED SLOWLY, THE PROGRAM SOON ACCELERATED. IN 1985 THE MISSION SUPPORT PROGRAM WAS GREATLY EXPANDED WITH ESTABLISHMENT OF PROJECTS IN PRIVATIZATION, FINANCIAL MARKET DEVELOPMENT, AND PRIVATE ENTERPRISE DEVELOPMENT SUPPORT, WHICH CONTINUE. THE ADDITION OF MISSION "BUY-INS" TO THESE CONTRACTS AND THE ENCOURAGEMENT OF MISSION

CO-FINANCING OF REVOLVING FUND LOANS HAVE HAD THE BENEFICIAL EFFECTS OF LEVERAGING BUREAU FUNDS, INCREASING PRE/MISSION TEAMWORK, AND ACTING AS A KIND OF REFERENDUM ON THE RELEVANCE AND USEFULNESS OF THE BUREAU'S SERVICES.

THE INTEGRATION OF PRE ACTIVITIES WITH MISSION PROGRAMS TO AN EVEN GREATER EXTENT, ESPECIALLY ACTIVITIES CONNECTED WITH THE REVOLVING FUND, WAS RECOMMENDED IN THE RECENT MANAGEMENT ASSESSMENT OF THE BUREAU, ONE OF NINE SUCH ASSESSMENTS UNDERTAKEN AT THE DIRECTION OF THIS SUBCOMMITTEE. THE PRE EVALUATION TEAM REPORT IS BEING GIVEN THOUGHTFUL AND SERIOUS STUDY BY MY BUREAU AND SENIOR A.I.D. MANAGEMENT.

THE FOLLOWING SUMMARIZES THE MAIN COMPONENTS OF PRE'S MISSION SUPPORT PROGRAM, FOR WHICH WE ARE REQUESTING A TOTAL OF $11,020,000 IN FY 1989.

DIVESTITURE AND PRIVATIZATION ($2,250,000) -- THIS PROJECT IS DESIGNED TO HELP CREATE A POLICY CLIMATE FOR, AND PROVIDE TECHNICAL AND FINANCIAL SUPPORT TO ACCELERATE, THE TRANSFER OF STATE ENTERPRISES AND FUNCTIONS TO THE PRIVATE SECTOR. CENTERPIECE OF THE ACTIVITY IS THE PRE-FUNDED CENTER FOR PRIVATIZATION, SPONSORED BY A CONSORTIUM OF SIX FIRMS. SINCE ITS ESTABLISHMENT IN LATE 1985, THE CENTER HAS SENT MORE THAN 100 SPECIALISTS TO OVER 30 COUNTRIES.

THESE SPECIALISTS HAVE WORKED TO IMPLEMENT A DIVESTITURE STRATEGY FOR SOME 60 STATE ENTERPRISES IN HONDURAS; 8-10 OF THESE ENTERPRISES ARE EXPECTED TO BE PRIVATIZED THIS YEAR. THEY WERE ALSO RESPONSIBLE FOR DIVESTITURES IN BELIZE. IN JORDAN, THE CENTER HAS HELPED PLAN PRIVATIZATION OF THE STATE-OWNED AIRLINE, THE AMMAN CITY BUS SYSTEM AND THE COUNTRY'S TELECOMMUNICATIONS CORPORATION. IT HAS DEVELOPED NATIONAL PRIVATIZATION PLANS FOR THE PHILIPPINES AND THAILAND,

AND AIDED TUNISIA'S PRIVATIZATION COMMISSION IN THE ANALYSIS OF TAX LAWS, THE COMMERCIAL CODE, AND OTHER SPECIFIC POLICY ISSUES. MORE RECENTLY, THE CENTER UNDERTOOK AN ANALYSIS FOR THE WORLD BANK AND PLANS TO CONTINUE PROVIDING SERVICES TO MULTILATERAL AND OTHER ORGANIZATIONS.

FINANCIAL MARKETS DEVELOPMENT ($760,000) -- THIS PROJECT AIMS TO IMPROVE THE MOBILIZATION OF PRIVATE CAPITAL IN DEVELOPING COUNTRIES SO IT CAN BE CHANNELED INTO PRODUCTIVE ENTERPRISE. A STRONG FINANCIAL MARKETS STRUCTURE CAN BE A POWERFUL ANTIDOTE TO CAPITAL FLIGHT. THE PROJECT HELPS MISSIONS IN POLICY REFORM, PROJECT DESIGN AND FINANCIAL MARKET EXPERTISE NEEDED BY HOST COUNTRIES.

FOR EXAMPLE, IN ORDER TO HELP JORDAN ASSESS ITS CLIMATE FOR INVESTMENT, A RECENT PRE-COMMISSIONED STUDY SURVEYED INVESTMENT OPPORTUNITIES AND INCENTIVES IN SIX OTHER NEAR EAST COUNTRIES AND TAIWAN. THE FINDINGS AND RECOMMENDATIONS WERE WARMLY RECEIVED BY JORDAN'S MINISTRY OF PLANNING. ANOTHER PRE-FUNDED TEAM SURVEYED INVESTMENT CLIMATES IN EIGHT SOUTH PACIFIC NATIONS AND DRAFTED A COMPREHENSIVE PRIVATE SECTOR DEVELOPMENT STRATEGY FOR THE REGION.

THIS PRE PROJECT HAS ALSO HELPED PREPARE FINANCIAL SECTOR STRATEGIES FOR MISSIONS IN BELIZE, BOLIVIA, ECUADOR, GUATEMALA, HONDURAS, INDONESIA AND MOROCCO. IT PROVIDED TECHNICAL ASSISTANCE IN SEVERAL DOZEN OTHER COUNTRIES. THIS FISCAL YEAR, WE WILL SEEK TO DEVELOP FURTHER THE FINANCIAL MARKETS OF INDONESIA, KENYA, MOROCCO AND OTHER COUNTRIES SHOWING PARTICULAR PROMISE FOR EXPANSION OF SUCH MARKETS.

IN ALL, THE FINANCIAL MARKETS PROJECT HAS UNDERTAKEN 69 ACTIVITIES.

Private Enterprise Development Support ($1,500,000) -- Through this project, the Bureau is providing missions assistance needed to identify regulatory, legislative, managerial, or other barriers which impede the expansion of private sector growth, as well as developing and applying analytical tools to help missions carry out policy reform. It also has assisted missions in encouraging export promotion and free zone development. New activities will include mission support on sector-specific problems, such as agribusiness, human resources and health.

Allied with the mission support components described above are the activities of the International Executive Service Corps (I.E.S.C.) ($5,260,000). This 24-year-old organization has had a long association with A.I.D. and since 1982 has operated with the support of a grant from PRE. As you know, I.E.S.C. draws on a skills pool of some 6,500 seasoned American business executives, most of them retired, who undertake two- to three-month volunteer assignments abroad to share their managerial and technical knowhow with developing-country firms. In FY 1987, I.E.S.C. completed 600 projects, making a total of 11,000 projects in 70 countries. In FY 1988, PRE is providing a one-year grant while an evaluation is being completed, and plans to begin a new, multi-year grant in FY 1989. Since its association with the Bureau for Private Enterprise, I.E.S.C. has focused on small business and on expanding operations in the Caribbean and Africa, and coordinates its activities with missions to assure conformity with mission priorities.

A new PRE Bureau program, tentatively called Tradetech ($1,000,000), is being developed to build closer direct relationships between U.S. and indigenous business people to facilitate investment, trade and technology transfer. The

PROGRAM WILL ESTABLISH THESE TIES THROUGH PROGRAMS WITH STATE DEVELOPMENT AGENCIES, WITH SECTOR-SPECIFIC INVESTMENT PROGRAMS THROUGH THE INTERNATIONAL EXECUTIVE SERVICE CORPS NETWORK, AND THROUGH AN INFORMATION SERVICE THAT WILL INCLUDE DATA ON ITEMS SUCH AS INVESTMENT CLIMATE, TRADE RULES AND REGULATIONS, TECHNOLOGY TRANSFER, POLICIES, AND OPPORTUNITIES AND U.S. AND DEVELOPING COUNTRIES' TRADE AND INVESTMENT OPPORTUNITIES. THE PROGRAM WILL REQUIRE COLLABORATION WITH A NUMBER OF GOVERNMENT AGENCIES, PARTICULARLY COMMERCE AND THE OVERSEAS PRIVATE INVESTMENT CORPORATION, AND WITHIN A.I.D., SPECIFICALLY WITH SCIENCE AND TECHNOLOGY BUREAU EFFORTS TO DEVELOP COMMERCIAL INTERMEDIARY SERVICES.

ONE SUCH EFFORT IS ALREADY IN PLACE. THIS IS THE PRE FUNCTION WHICH CARRIES ON THE WORK OF A.I.D.'S FORMER OFFICE OF THE PRIVATE SECTOR COORDINATOR TO MATCH BUSINESS OPPORTUNITIES IN EGYPT WITH POTENTIAL AMERICAN INVESTORS. WE WORK CLOSELY WITH THE MISSION-FUNDED U.S. INVESTMENT PROMOTION OFFICE (USIPO) IN CAIRO TO DO THIS. SINCE USIPO BEGAN WORKING WITH OUR BUREAU ABOUT A YEAR AGO, IT HAS CARRIED OUT A TARGETED INVESTMENT PROMOTION PROGRAM WHICH HAS THESE ELEMENTS: IDENTIFICATION OF AN INVESTMENT IDEA THAT FITS IN WITH EGYPT'S DEVELOPMENT NEEDS; PRESENCE OF A STRONG EGYPTIAN PRIVATE SECTOR SPONSOR GROUP WITH EXPERIENCE AND FINANCIAL ABILITY TO UNDERTAKE THE PROJECT; SUPPORT OF AN EGYPTIAN FINANCIAL INSTITUTION; AND PRELIMINARY APPROVAL OF THE GOVERNMENT. PRE'S ROLE IS TO IDENTIFY THE LIKELY AMERICAN PARTNER; RECONNAISSANCE VISITS AND FEASIBILITY STUDIES FOLLOW. IN THE PAST YEAR, WE HAVE ARRANGED VISITS TO EGYPT BY 45 U.S. BUSINESSES CONSIDERING JOINT VENTURES. THIRTY FIRMS HAVE UNDERTAKEN FEASIBILITY STUDIES OR ARE PLANNING SUCH STUDIES. POTENTIAL INVESTMENT THAT WOULD FLOW FROM THESE ACTIVITIES AMOUNTS TO $330 MILLION.

WE ARE REQUESTING $770,000 FOR PRE'S PROGRAM DEVELOPMENT

AND SUPPORT ACTIVITIES WHICH INCLUDE EVALUATIONS OF BUREAU PROGRAMS AND PROJECTS.

THE PRE-MANAGED PRIVATE SECTOR REVOLVING FUND PROGRAM REQUEST IN FY 1989 IS $9,000,000. THE FUND WAS ESTABLISHED BY CONGRESS IN LATE 1983. IT PROVIDES A FLEXIBLE, BUSINESSLIKE MECHANISM FOR CHANNELING CAPITAL ON MARKET-ORIENTED TERMS AND CONDITIONS TO COMMERCIALLY VIABLE PROJECTS WITH STRONG DEVELOPMENT PAYOFFS.

IN LINE WITH THE AUTHORIZING LEGISLATION AND EARLY PRE INVESTMENT PRACTICES, THE FUND TARGETS AS BENEFICIARIES SMALLER INDIGENOUS ENTERPRISES WANTING TO START UP OR EXPAND WHO ARE OFTEN CONSIDERED RISKY CLIENTS BY LOCAL PRIVATE BANKS. A MAJOR ACCOMPLISHMENT OF THE FUND HAS BEEN TO DEMONSTRATE TO BOTH A.I.D. MISSIONS AND DEVELOPING COUNTRY LENDERS THE FEASIBILITY OF LENDING TO SMALL BUSINESSES AT MARKET RATES. THE FUND ALSO FOCUSES ON INNOVATIVE PROJECTS AND ON THOSE THAT CAN SERVE AS MODELS FOR MISSION FOLLOWUP. MISSIONS IN KENYA, MOROCCO, GUATEMALA, ECUADOR, THAILAND AND THE PHILIPPINES HAVE USED REVOLVING FUND PROJECTS FOR PROTOTYPES OR IDEAS IN BUILDING THEIR OWN PROGRAMS.

THE REVOLVING FUND PORTFOLIO COMPRISES 30 LOANS TOTALING $60,050,000 IN 14 COUNTRIES. BECAUSE EACH LOAN LEVERAGES A.I.D.'S CONTRIBUTION BY DRAWING IN ADDITIONAL CAPITAL FROM PRIVATE LENDERS AND SUB-BORROWERS, THE PORTFOLIO HAS THE PROSPECT OF MOBILIZING MORE THAN $130,000,000 FOR PRIVATE SECTOR ACTIVITIES.

THE REVOLVING FUND PUTS A HIGH PRIORITY ON DEMONSTRATING TO MISSIONS NEW WAYS OF INTERACTING WITH THE PRIVATE SECTOR. FOR EXAMPLE, THE FY 1987 PORTFOLIO INCLUDED A LOAN TO BUSINESS VENTURE PROMOTION, LTD., WHICH MADE POSSIBLE THE ESTABLISHMENT

OF THAILAND'S FIRST VENTURE CAPITAL FIRM. ANOTHER LOAN LAST YEAR WAS TO THE SECURITIZED TRADE FINANCING FUND IN TURKEY. IT HELPS SMALL AND MEDIUM-SIZED EXPORTERS BY GENERATING FUNDS - THROUGH BOND SALES IN THE U.S. CAPITAL MARKET - FOR A TRADE FINANCE COMPANY. A THIRD LOAN TO THE NOVAGENE GROUP IS HELPING AN AMERICAN PARTNERSHIP MODIFY U.S. TECHNOLOGY FOR PRODUCTION AND MARKETING IN ASIA TO COMBAT SWINE DISEASE. THIS PROJECT ALSO ILLUSTRATES AN ATTENTION BY FUND MANAGEMENT TO WORKING WITH AMERICAN FIRMS AND GENERATING OPPORTUNITIES FOR U.S. EXPORTS WHENEVER POSSIBLE.

AN OLDER PROJECT IN THE PORTFOLIO TO HELP CAPITALIZE A MODERN MEAT PROCESSING PLANT IN THAILAND WILL SOON SHOW BENEFITS IN TERMS OF U.S. TRADE. THE LOCAL COMPANY IS REQUESTING DISBURSEMENT OF A PRE LOAN WHICH WILL BE USED TO PAY AMERICAN SUPPLIERS FOR GOODS AND SERVICES NEEDED IN THE PLANT'S EXPANSION. TH PROJECT ENTAILS SIGNIFICANT TECHNOLOGY TRANSFER IN THE FORM OF TECHNICAL ASSISTANCE PROVIDED BY THE SWIFT CO., CHICAGO. SWIFT OFFICIALS WERE IN THAILAND RECENTLY TO DISCUSS PLANT MANAGEMENT AND OPERATIONS.

THAILAND, WHERE A.I.D.'S MARKET-BASED APPROACH HAS BEEN PARTICULARLY WELL RECEIVED, OFFERS AN EXAMPLE IN MICROCOSM OF HOW THE REVOLVING FUND HELPS SMALL BUSINESSES BY ENCOURAGING LOCAL LENDERS TO GIVE THEM CREDIT.

PRE AND THAI DANU BANK AGREED TO JOIN IN A PROGRAM TO PROVE TO OTHER COMMERCIAL BANKS THE VIABILITY OF LENDING TO SMALL RURAL ENTERPRISES. OUR LOAN PROVIDED A PARTIAL GUARANTY FOR THAI DANU'S SUB-LOANS TO THESE ENTERPRISES. MIDWAY INTO THE PROJECT, THAI DANU REPORTED THAT A THIRD OF ITS 76 LOANS TO THIS SECTOR WERE FOR NEW (AND PRESUMABLY RISKIER) BUSINESSES. WITH THE GUARANTY-BACKED PRE LOAN, THE BANK ADOPTED A BOLDER LENDING POSTURE AND GAINED THE EXPERIENCE NEEDED TO WORK WITH

SMALLER CUSTOMERS AND TO IDENTIFY POTENTIAL CUSTOMERS WHO MIGHT QUALIFY FOR UNGUARANTIED CREDIT. A.I.D.'S MISSION IN THAILAND HAS DESIGNED A FOLLOW-ON PROGRAM WHICH INVITES PARTICIPATION BY ALL THAI COMMERCIAL BANKS AND CALLS FOR A REDUCTION IN COLLATERAL REQUIREMENTS FOR SMALL AND MEDIUM-SIZED CLIENTS.

ON THE BORROWING END, ONE OF THE CLIENTS USED THE PRE/THAI DANU CREDIT POOL TO BORROW $1,500 IN WORKING CAPITAL SO HE COULD SUPPLEMENT HIS MEAGER INCOME AS A JANITOR AT A RURAL ELEMENTARY SCHOOL BY GROWING VEGETABLES. THE MONEY WENT TO RENT A SMALL PLOT OF LAND. NET PROFITS AT THE END OF THE YEAR EXCEEDED THE SCHOOL SALARY AND ALLOWED THE BORROWER TO HIRE PART-TIME WORKERS TO WEED AND HARVEST HIS NEW CROP. IT IS THIS KIND OF MODEST SUCCESS STORY WHICH WE ARE TRYING TO MULTIPLY THROUGHOUT THE DEVELOPING WORLD.

THE LOAN TO THAI DANU BANK ALSO ILLUSTRATES A LENDING MECHANISM USED BY THE FUND REGULARLY IN THE PAST FEW YEARS. EARLY LOANS TO INTERMEDIATE FINANCIAL INSTITUTIONS MATCHED OUR DOLLARS WITH THEIR LOCAL CURRENCIES TO FORM A COMMON POOL. SUBSEQUENT EXPERIENCE INDICATED THAT A GUARANTY MECHANISM FOR LOANS MADE BY THE BANKS TO TARGET GROUPS WITH THEIR OWN RESOURCES WOULD BE MORE EFFECTIVE. THIS ADDRESSED THE RISK QUESTION - THE FACT THAT THIRD WORLD LENDERS HAVE REASONABLE LIQUIDITY AND NEED OUR DOLLARS LESS THAN THEY NEED A COMFORT FACTOR WHEN LENDING TO NEW CLIENTS WITH FEW ASSETS. THE MECHANISM ALSO RELIEVES THESE INSTITUTIONS OF THE FOREIGN EXCHANGE RISK OF BORROWING DOLLARS OVER TIME SINCE A.I.D.'S MONEY IS ACTUALLY DEPOSITED IN A U.S. BANK, WHICH ISSUES THE PARTIAL GUARANTIES.

THE MANAGEMENT OF THE REVOLVING FUND HAS RECEIVED SPECIAL ATTENTION FROM PRE AND IS THE SUBJECT OF A GENERAL ACCOUNTING OFFICE (GAO) REPORT REQUESTED BY THIS SUBCOMMITTEE.

During FY 1987, we took several steps to strengthen financial management of the Fund, including installing a computer-based monitoring system, conducting an analysis of reporting requirements, making more complete use of electronic fund transfer, and commissioning a number of case study evaluations to generate "lessons learned."

However, the GAO study recommended additional steps to improve financial management of the Fund. We have responded to these recommendations in a recent letter which I would like to provide for the record. We specifically addressed four areas of the study in order to add new information or to update or supplement the study team's understanding of Revolving Fund operations. These were in the areas of funds available for operations; the capacity to monitor and manage projects; the Fund's pipeline; and the risk issue. On the whole, however, we found the report helpful, fair and reflective of an appreciation for what we are trying to accomplish with the Revolving Fund.

The need to increase the impact of the Revolving Fund and make it a greater agent for institutional change in the LDCs has led A.I.D. to request of Congress a Revolving Fund Guaranty Authority.

Briefly, the legislation would amend Section 108 of the Foreign Assistance Act (which established the Revolving Fund) to authorize the issuance of guaranties in addition to direct dollar loans to accomplish the purposes of the statute. This new authority would therefore increase the Fund without increasing its previous levels of outlays or appropriations.

As indicated earlier, local lenders, in deciding whether to lend to small businesses in rural areas, are influenced more

BY AVERSION TO RISK THAN BY ANY LACK OF LIQUIDITY. THE GUARANTY WOULD HELP REDUCE THE RISK BY AUTHORIZING A.I.D. GUARANTIES OF UP TO HALF THE AMOUNT OF POSSIBLE LOCAL BANK LOSSES ON LOCAL CURRENCY SUBLOANS. THESE GUARANTIES WOULD BE BACKED BY A RESERVE ACCOUNT HELD BY TREASURY, CONSISTING OF ASSETS IN THE REVOLVING FUND AND TRANSFER OF DA FUNDS, ON A RATIO OF ONE RESERVE DOLLAR TO FOUR DOLLARS OF CONTINGENT LIABILITY. TO DATE, THE LOSS RECORD ON LOANS MADE FROM THE REVOLVING FUND IS LESS THAN 2 PERCENT, SO THE 25 PERCENT RESERVE PROVISION IS VERY CONSERVATIVE. A.I.D. WOULD ALSO SHARE IN RIGHTS TO COLLATERAL ALONG WITH THE LENDER.

WE FIRMLY BELIEVE THAT THIS GUARANTY AUTHORITY WOULD GIVE POWERFUL IMPETUS TO THE PRIVATE ENTERPRISE THRUST OF A.I.D. AND WE CONSIDER IT OUR MAJOR LEGISLATIVE INITIATIVE. ITS AUTHORIZATION AND IMPLEMENTATION WOULD NOT ONLY GIVE US GREATER IMPACT IN OPENING UP CREDIT AVENUES FOR INDIGENOUS SMALL BUSINESS BUT WOULD LET THE PRE BUREAU OFFER MISSIONS A STRONGER INSTRUMENT IN THEIR POLICY DIALOGUE WITH HOST GOVERNMENTS AND THEIR EFFORTS TO BUILD INDIGENOUS PRIVATE FINANCIAL MARKETS.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO HAVE HAD THIS OPPORTUNITY TO DISCUSS A.I.D.'S PRIVATE ENTERPRISE INITIATIVE. I BELIEVE THE RECORD SHOWS THAT THE INITIATIVE HAS TAKEN HOLD IN THE AGENCY, HAS BECOME AN INTEGRAL PART OF AGENCY PROGRAMS ACROSS THE BOARD, AND WILL CONTINUE TO BE A LEADING FORCE FOR DEVELOPMENT IN THE FUTURE. I ALSO LOOK FORWARD TO WORKING WITH THE SUBCOMMITTEE TO ADDRESS ANY CONCERNS YOU MAY HAVE ABOUT THE CONDUCT OF THE INITIATIVE AND YOUR SUGGESTIONS OF WAYS IN WHICH WE CAN DO OUR JOB BETTER. THANK YOU.

MAY 3 1988

Mr. Frank C. Conahan
Assistant Comptroller General
United States General Accounting Office
441 G Street, N. W.
Room 4804
Washington, D. C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on the GAO's draft report entitled, "A.I.D.'s Private Sector Program: Issues Concerning Performance of Its Revolving Fund." I appreciate the time and attention the GAO staff spent reviewing the Revolving Fund. We found the report on the whole thorough, well-written and fair. The audit report reflected an appreciation of what the Revolving Fund is attempting to accomplish and also of the difficulties inherent in establishing a market-driven investment fund. We also appreciate the fact that the positive indicators of the program's impact were set forth in the report.

Our comments, attached as an annex to this letter, therefore, will be limited to four areas of concern discussed in the report: (1) funds available for operations; (2) the Agency's capacity to monitor and manage projects; (3) the pipeline of obligated but undisbursed loan funds; and (4) policy issues, particularly with respect to risk undertaken in the Revolving Fund.

Thank you again for this opportunity.

Sincerely,

Neal Peden
Assistant Administrator
Bureau for Private Enterprise

## FUNDS AVAILABLE FOR OPERATIONS

The GAO finding that $18 million will be available for Revolving Fund operations in FY 1988 is inaccurate because it is based upon incomplete information. Since the auditor's review, new information about appropriation and deobligation levels has become available. Furthermore, this figure is inaccurate because of a risky and inappropriate treatment of current year reflows. First of all, as the auditor indicated in the report, the GAO arrived at the $18 million figure on the assumption that the maximum level of appropriations which were authorized by Congress for the Revolving Fund in FY 1988 would indeed be transferred in the the account. This, however, is not the case. Although Congress appropriated "not to exceed" $9 million in transfer authority for the Revolving Fund, A.I.D. to date has transferred $3 million and will in fact transfer no more than $4.5 million into the account. Finally, the project deobligations which also affect funds available for FY 1988 have also been revised from $2 to 4 million.

In addition to the above modifications, we believe that "current year reflows" should not be considered "net available funds" until the fiscal year following that in which they are received. This argument is made on advice of counsel in light of the uncertainty of reflows and consequential Anti-Deficiency Act problems. From a management prospective, this approach is also the most prudent as it enables Fund staff to know the resources actually available for investment rather than being forced to rely on projected reflows.

Based on the above adjustments, AID has reconstructed the estimated Funds Available as follows:

| Fiscal Year 1988 | ($ Millions) | |
|---|---|---|
| | GAO | A.I.D. |
| Balance carried forward | $4.15 | $4.15 |
| Current reflows | 3.06 | -- |
| Interest on inv. funds | .32 | .32 |
| Appropriation | 9.00 | 3.00 |
| Deobligations | 2.00 | 4.00 |
| | $18.53 | $11.47 |
| Less: writeoffs | ( .25) | ( .25) |
| Net available funds | 18.28 | 11.22 |
| Obligation authority | 12.00 | 12.00 |
| Ending balance | $6.28 | 0 |
| Balance forward | $6.28 | $3.06* |
| Current reflows | 8.40 | -- |
| Interest from Inv. funds | .23 | .23 |
| Deobligations | 1.00 | 1.00 |
| Subtotal | 15.91 | 4.29 |

Fiscal Year 1989

| | GAO | AID |
|---|---|---|
| Appropriation | 8.50 | 8.50 |
| Net available funds | 24.41 | 12.79 |
| Obligated Authority** | 12.00 | 12.00 |
| Ending balance | $12.41 | $ .79 |

* Current year reflows from prior year

** Assume straight-line from FY 1988

We, therefore, are convinced that considering the funds that will be actualized by the Revolving Fund in FY 1989, and the legally appropriate way to handle current reflows, there is a clear need for an FY 1989 appropriation of the $8.5 million requested.

## THE AGENCY'S CAPACITY TO MONITOR AND MANAGE PROJECT

In addition to management improvements already undertaken and noted in the audit report, PRE is considering how Fund operations can be further refined in light of receiving the proposed guarantee authority. The guarantee authority would enable the Fund to operate at approximately four times its present size. This program expansion would, of course, require an increase in internal and/or external staff. Senior agency management has assured the Revolving Fund managers that it supports the larger guarantee program and that the necessary steps will be taken to ensure that PRE has the resources with which to manage and monitor projects in a prudent, professional manner. Thus, while detailed decisions regarding additional program staff and contract support have not yet been made, the Agency is committed to supporting this enhanced authority.

A second means by which PRE seeks to strengthen its capacity to monitor and manage projects is by linking Revolving Fund projects more closely to Mission financial markets strategies. Building upon the increased coordination that Fund management has initiated with the field Missions (with the result that of the seven Revolving Fund projects developed in FY 1987, five were co-designed and three co-financed with the Missions), PRE now proposes to even more closely link the Fund to the Missions by recasting the Fund as a source of both expertise and resources for the Missions. Under this new approach, Fund management would utilize the Fund as a mechanism and resource to assist the Missions in developing and implementing financial markets strategies. In so doing, the Fund will garner support now lacking from some Missions and will more readily enlist Mission participation in managing and monitoring Fund projects in the field.

To further assist Missions in monitoring Fund projects, PRE is also proposing to increase the level of contract support in selected Missions. The Fund has two Personal Service Contractors in place in Asia and we anticipate expanding that number to five to better assist the Missions with local implementation of Revolving Fund projects.

## PIPELINE OF OBLIGATED BUT UNDISBURSED LOANS

The GAO auditor relied upon a disbursement/obligation level which inaccurately portrays the magnitude of obligated but undisbursed loans for the Revolving Fund except on the date chosen (September 30, 1987). This is a result of the fact that on that date, the year end for the Revolving Fund, 100% of the 1987 portfolio had been obligated but very few disbursements under those loans had been made. The actual disbursement figures are substantially better at this time. The overall portfolio will be 43% disbursed by the end of April and A.I.D. expects the portfolio to be 50% disbursed by the end of May.

Nevertheless, we agree with the auditor that the time frame for disbursing obligated funds needs to be reduced. We have assembled an implementation team to accelerate the process of readying projects for disbursement and are exploring ways of shortening this time lag.

## POLICY ISSUES, PARTICULARLY WITH RESPECT TO RISK

In light of the auditor's recommendations, Fund management has determined that an explicit overall policy on risk for the Revolving Fund will be helpful and is in the process of developing such a policy. Until now, risk has been assessed on a project-by-project basis. At this point, with a four year old fund, management believes that it now has an experience base with which to codify an overall risk policy for the Revolving Fund. The Agency's soon-to-be issued Policy Paper on Financial Markets Development will be the basis for an internal Revolving Fund policy.

Collateral requirements are one of the elements that will be addressed in this policy. However, in our continuing effort for fund projects to have an institutional impact on local financing institutions, we realize that collateral is but one of the elements in the way a bank does business that we are trying to affect. The Fund must first encourage a local bank to consider entering developmentally desirable markets which will prove to be profitable. Secondly, we encourage banks to offer term lending and cash-flow lending, thereby reducing collateral requirements.

In a discussion of risk and collateral requirements, we think that it is important to point out that even a bank in the sophisticated United States financial environment does not consider a fully collateralized loan risk-free and this is certainly the case in the developing world. Banks are not in the business of collecting loans against collateral and in fact consider that a loan has "gone bad" that has reached that point.

Lending institutions are interested in making credit available to enterprises which will repay on a timely basis. We believe our role is to expand the horizons of these lending institutions and demonstrate to them that new classes of borrowers are creditworthy. Additionally, missions will not seek to replicate a "failed" process; thus the Revolving Fund mandate would be diminished. If we force banks into unprofitable lending, we will have failed in our mission. Nevertheless, we agree that a formal risk policy will clarify the balance to be struck between credit worthiness and development impact.

### REVOLVING FUND DEOBLIGATIONS

Senator INOUYE. Thank you very much.

Last year while looking over the A.I.D. cash flow projections, we got the impression that large numbers of projects started by the agency were being abandoned. And we expressed our concern in our report, and I think the following language appeared, that this may be as much a reflection of the management of the program as it is the experimental nature of many of the activities being funded.

I think this may be a good place to paraphrase one of our founding fathers, Thomas Jefferson, who said—and this is paraphrasing and taking great liberties—it is better to do something for mankind and make errors than do nothing at all.

Now, what is your view? Have we made too many errors? Why have you had such a high level of cancellations of your projects?

Ms. PEDEN. Regarding the revolving fund, Mr. Chairman, we expect to deobligate $4 million in the current fiscal year. We deobligated $1 million in prior years. That is a total of $5 million, which is about 7 percent of our current portfolio. We do not feel that that is out of line.

What we do feel is that the deobligation procedure allows us to have the flexibility to look at projects that we think will not go forward and, before we have losers, to deob them.

Also, in a lot of the cases where we have made deobligations, it has not been necessarily the fault of the fund or A.I.D., but occurred because of host government interventions. One case in point: we had a $3 million revolving fund project with the Serum Institute in India, and the government intervened. We could go forward with only $1 million. We are still trying to disburse that; even today the government has raised another caveat that will delay our going forward until August.

The bottom line is that we have been very cautious. We have had only a 2 percent loss from defaults over the entire time that we have been in this business. Although we are in a high risk business, we feel that the recent studies of our operations have reinforced the fact that our management has been conservative and well-founded.

### EFFECT OF PROGRAM ON AMERICAN BUSINESS

Senator INOUYE. One of the criticisms heard quite often from the private sector is that the activities of your agency may have an adverse impact upon American companies doing business in the developing world by giving unfair advantage by this guarantee program.

What do you have to say to that?

Ms. PEDEN. Oh, I think that American businesses benefit from the potential of joint ventures and other relationships with Third World partners far more than we would be in a position to hurt them. What we are trying to do is to help the people in the indigenous private sectors to help themselves, to be players in the world market, not necessarily to be in competition with the United States or anyone else.

Senator INOUYE. Will we be supporting export initiatives?

Ms. PEDEN. We are not at this point supporting exports, but that is not to say that at some point we would not go into that.

Senator INOUYE. Even if it competes with our companies here?

Ms. PEDEN. We go by all of the caveats that are placed on us and comply with those provisions that govern where our money cannot go and what exports cannot be supported. I think perhaps the only time that that is loosened a bit is in the CBI, but not universally.

### ACTIVITIES IN COUNTRIES THAT EXPROPRIATE U.S. PROPERTY

Senator INOUYE. Over the years we have had problems with various countries, countries that do not operate according to our rules, and they expropriate the property of American citizens without any due process of law or any cause, for that matter.

When that happens in the government, does that stop yo} from supporting private investment in that country until the matter is resolved, or do you continue?

Ms. PEDEN. Mr. Chairman, the only time we go into a country to do business is at the invitation of the A.I.D. mission and as part of the overall A.I.D. program. The mission is our eyes and ears. The mission makes those determinations because it is constantly involved in policy dialogue with that country. Only when we are asked there, and only when we are part of their strategy for that country do we participate in any program.

Senator INOUYE. So the policy decision is made by the mission in that country.

Ms. PEDEN. Yes.

Senator INOUYE. And if that country is expropriating properties of American citizens, you may still support private investment there?

Ms. PEDEN. That determination would be made by A.I.D. consistent with statutory requirements and would depend on what is advantageous to our policy interests in that country. As I mentioned earlier, my bureau operates in any country that is A.I.D.-assisted, but only with the invitation and cooperation of the missions.

### BUREAU PERSONNEL WITH BUSINESS BACKGROUNDS

Senator INOUYE. As you know, recently a management study was conducted for this bureau, and they noted that one of the major problems was the absence within the bureau of professional businessmen with personal experience in small and medium sized companies.

Are you recruiting professional businessmen as full time staff or advisors to your bureau?

Ms. PEDEN. Since our investment program began, we have hired professional bankers for our investment office. And because of the emphasis that A.I.D. is now placing on private sector involvement, the personnel office is now making a background in business one of the pluses in the hiring procedure.

It is true that most of the people working within A.I.D. perhaps would not have business backgrounds. That is why we have the latitude for the investment shop to acquire people with such backgrounds.

Senator **INOUYE**. Thank you very much.

Senator Mikulski, do you have any questions?

Senator **MIKULSKI**. No, Mr. Chairman.

Senator **INOUYE**. I thank you very much.

## OFFICE OF FOREIGN DISASTER ASSISTANCE

## STATEMENT OF HON. JULIA TAFT, DIRECTOR, OFFICE OF FOREIGN DISASTER ASSISTANCE

### LOCUST ERADICATION REPORT

Senator INOUYE. Our next witness is the Honorable Julia Taft, Director of the Office of Foreign Disaster Assistance.

I would like to begin this segment by reading a statement so that the record would clearly show what I have in mind.

This relates to the locust eradication report effort on our part. Reports of a disturbing series of events which have taken place over the last 5 months have recently come to my attention. I know that your office, the A.I.D. Africa Bureau, as well as other parts of A.I.D., were involved. While I do not wish to defame anyone, I must say that these events suggest a casual indifference on the part of the U.S. Government officials to a crisis of staggering proportions in a distant region of the world, and I am speaking of the plague of locusts now ravaging large sections of the African Continent, and the slow, indecisive manner in which AID responded to the urgent pleas of its field mission in Mauritania for immediate assistance.

By the time meager funding was arranged and minimal assistance provided, the locust plague had grown to the almost unbelievable proportions we see today, and there are several articles here which I would like to place in the record at this time.

[The information follows:]

THE CHRISTIAN SCIENCE MONITOR TUESDAY, APRIL 12, 1988

# Locust menace stirs northern Africa to pour on the pesticides

By Kristin Helmore
Staff writer of The Christian Science Monitor

Boston

Rain in the desert can be a mixed blessing.

In four countries of Northwest Africa – Mauritania, Morocco, Algeria, and Tunisia – the unusually heavy rains of several weeks ago have spawned swarms of hungry locusts, flying over huge tracts of land in search of something green to eat.

Across southern Algeria, for example, a wide, "green dam" of trees planted in the 1970s to halt the advance of the desert is being attacked. In Morocco, a staff of 1,500 has been assigned to pest-control programs.

A report from the United States Agency for International Development (AID) says that a swarm estimated at 20 billion insects, measuring 150 square miles, crossed from Algeria into Tunisia in the last few weeks.

Locust plagues in Africa are a perennial scourge. International aid agencies have stepped in to try to halt the insect onslaught by applying hundreds of thousands of liters of pesticides.

These liberal applications of pesticides, which have sparked some controversy, are donated mainly by Western Europe, the US, and, to a lesser degree, the Soviet Union. Donations of pesticides and equipment to combat locusts totaled $90 million for 1986 and 1987, according to the UN Food and Agriculture Organization, which acts a liaison between the affected nations and donor governments.

Environmentalists and many others are concerned about the danger posed by chemical pesticides to other forms of wildlife – and to humans.

The good news this year is that the three main pesticides being used – malathion, fenitrothion, and, in smaller amounts, carbaryl – are generally considered safer to the environment than the three leading pesticides used against locusts in Africa last year. They have all been approved by the US Environmental Protection Agency (EPA).

The bad news comes in two parts. First, FAO consultant Nick Raymond says the three pesticides being used this year could prove to be less than effective.

"We consider them so safe that FAO is raising the question of whether we need to go to a more powerful pesticide – dieldrin – which everybody agrees has more severe environmental side effects," says Mr. Raymond. Dieldrin, a type of DDT, is one of the highly-criticized chemicals used during a locust infestation in Africa nations last year. It is said to cause cancer and is banned in the US.

Second, the three pesticides being used may be safer than in the past, but according to environmental monitoring groups, even these can not be considered "safe."

"It's a step forward, but it's only a baby step," says Diane Baxter of the National Coalition Against the Misuse of Pesticides in Washington. "These are less toxic pesticides, but it's like choosing between Satan and Beelzebub. And their effects are not permanent. It's a stop-gap solution, and it's harsh. It can kill beneficial insects.

MOROCCO
TUNISIA
ALGERIA
MAURITANIA
Nations hardest hit by swarms of locust

"We can't just substitute pesticide for pesticide. Any permanent solution would have to take into account the life style of this pest."

Does such a "permanent solution" exist? Baxter thinks it may, under the name of nocima locustae, a biologically produced parasite that attacks locusts – and only locusts.

Nocima Locustae is marketed under the name of Nolobait by Evans Biocontrol in Broomfield, Colorado. Director John Evans will be meeting with FAO officials in Rome this week, and then traveling to Africa to discuss the application of Nolobait to the current locust problem.

Nolobait kills only from 50 to 60 percent of targeted insects. But females pass it on through the egg into the third and fourth generation. (There can be several generations in one year in Africa.)

Mr. Evans admits nocima is a long-term, rather than quick, solution to be used emergencies. "Once there are swarms of adult locusts coming across the desert, nocima is not going to work," he says, but adds that it does reduce the amount of eating a locust can do.

A number of experts are more guarded in their endorsement of Nocima for use in Africa. "An integrated approach is the best approach to take," says Jerry Fowler, director of the Grasshopper Integrated Test Management Project of the US Department of Agriculture in Boise, Idaho. "In environmentally sensitive areas, nocima works particularly well on very young grasshoppers in localized areas. . . . In certain situations it's not the best choice, but it must be a part of the arsenal we are using. . . ."

Jeremy Roffey, head of FAO's locust division, is skeptical. "It's not being used in Africa." he says. "Some field trials were undertaken in Senegal but the general feeling was these trials were not very satisfactory. It was more effective when mixed with a chemical pesticide. . . ."

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(A FULL VERSION IS MOVING ON THE GENERAL NEWS WIRE)

ISRAEL GOES ON LOCUST ALERT

JERUSALEM (UPI) _ ISRAEL, SUFFERING FROM A STIFLING HEAT WAVE, WENT ON A LOCUST ALERT TUESDAY AND BRACED FOR AN INVASION OF THE AGRICULTURAL PESTS FROM NEIGHBORING ARAB COUNTRIES.

OFFICIALS SAID DARK, CLOUD-LIKE SWARMS OF LOCUSTS WERE SPOTTED IN EGYPT'S SINAI DESERT, AND SMALLER NUMBERS WERE SEEN IN JORDAN AND SAUDI Arabia. Shifting winds would determine whether the pests would Cross INTO ISRAEL.

''WE HAVE TO BE READY. WE GOT A MESSAGE THAT SOME SWARMS APPEARED IN THE SINAI,'' SAID SHMUEL EL-CHANAN OF ISRAEL'S AGRICULTURE MINISTRY. ''WE HAVE PUT OUR SPECIAL HEADQUARTERS FOR LOCUSTS ON ALERT.''

AT ONE POINT, EL-CHANAN SAID, A 75-BY-15-MILE WIDE MASS OF LOCUSTS WAS SEEN IN THE SINAI DESERT. ISRAELI OFFICIALS WERE LEARNING OF THE LOCUSTS' WHEREABOUTS FROM AN INTERNATIONAL AGENCY TRACKING THEM.

STATE-RUN ISRAEL RADIO REPORTED THAT 12 CROP-DUSTER AIRPLANES AND FOUR HELICOPTERS LADEN WITH SPECIAL LOCUST-KILLING CHEMICALS WERE PREPARED FOR LIFT-OFF FROM AN AIRSTRIP IN HERZLIYA NEAR TEL AVIV.

IF THE SWARMS CROSS INTO THE NEGEV DESERT FROM THE SINAI, EL-CHANAN SAID, THE AIRCRAFT WILL ASSAULT THE LOCUSTS WITH CHEMICALS IN ORDER TO KILL THEM BEFORE THEY REACH ISRAELI FARMS.

LOCUST SWARMS TRAVEL AT A RATE OF ABOUT 6 MILES A DAY.

THE LAST LOCUST ATTACK IN ISRAEL WAS IN 1961.

EL-CHANAN SAID THE POTENTIAL ONSLAUGHT WAS NOT AS TROUBLESOME AS IT COULD BE BECAUSE ISRAEL'S HOT, DRY SUMMER CONDITIONS ARE NOT RIGHT FOR FEMALE LOCUSTS TO LAY EGGS. THIS MEANS THE SWARMS WOULD SIMPLY EAT THEIR WAY ACROSS THE COUNTRY, INSTEAD OF LEAVING BEHIND MORE INSECTS TO HATCH.

THE SCARE ERUPTED DURING A SCORCHING HEAT WAVE, THE WORST IN THE AREA SINCE 1941, THAT SIZZLED ACROSS ISRAEL, CREATING CONDITIONS FOR FARMLANDS FIRES IN THE NORTHERN GALILEE REGION.

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UPI 05-17-88 03:16 PED

## REGIONAL

### Locust Eradication Campaign in Maghreb Countries Continues
*45040113 London AL-MAJALLAH in Arabic 13-19 Apr 88 pp 68-71*

[Text] Officials combatting the locusts in the Arab Maghreb countries are no longer concealing their feeling that the war against these insect pests wreaking havoc on agricultural crops requires Maghreb coordination, following the failure of each country unilaterally to eradicate the plague coming from Mauritania and Niger. This plague is spread across a wide range of northern West Africa and is threatening agricultural crops in these regions. Therefore, contacts and negotiations have taken place between Morocco and Algeria to coordinate efforts toward eradicating the locust swarms. In this context, Driss Basri, Moroccan interior minister and minister of information, met with his Algerian counterpart, El-Hadi Khediri, and concluded an agreement unifying efforts to stop the advance of the locusts. The two Maghreb ministers visited the afflicted areas along the border of the two countries, an area which is staggering under losses from the locusts which have reached 50 percent of agricultural production.

In the same context, a meeting of the Arab Maghreb countries' agricultural ministers was held in Tunisia to examine their capability to fight the locusts, which would enable the eradication of a portion of them from agricultural crops in Tunisia, Algeria, and Morocco. During this meeting, each delegation gave a presentation on the locust situation in its country, the damages sustained by agriculture as a result of it, and the results achieved by fighting it. An agreement was concluded during the meeting in Tunisia concerning the necessity of supporting an exchange of information on locust migration, the areas where they may be found, and climatic conditions and weather forecasts which affect their migration.

The United Nations' FAO indicated that coordination of efforts among the afflicted countries will perhaps not be adequate to stop the advance of the locusts, which have begun to threaten Spain, Italy, Egypt, and Jordan. Swarms have been spotted over the island of Crete and Greece. Edouard Saouma, director general of the FAO, called on industrialized nations to send speedy aid to the Arab Maghreb countries to eradicate locusts which he described as the worst disaster that Maghreb agricultural crops have been exposed to since the fifties.

Arab Maghreb countries, especially Morocco, Algeria, and Tunisia, have obtained a group of planes, spraying equipment and pesticides from a number of countries. The Kingdom of Saudi Arabia also gave dozens of vehicles and tons of pesticides to Morocco and Algeria as part of a generous aid [package] to eradicate the locusts. The French foreign minister announced that Paris had sent 2.5 million French francs worth of assistance to Morocco [in the form of] helicopters and protective clothing. The FRG sent 3 million marks to Morocco for the same purpose.

Locust eradication sources in Rabat say that no fewer than 10 Arab and European nations have sent aid to the Maghreb or have expressed their commitment to it.

According to these same sources, approximately 800,000 hectares have been treated with pesticides since the first of October. The locust eradication operations are continuing at such an intensity that 30,000 hectares a day are being treated by 79 planes and hundreds of vehicles and helicopters.

In Algeria and Tunisia, where the southern areas are exposed to devastating attack by locust swarms, half of the date and olive crops have been destroyed. Army personnel are assisting the experts in the treatment operation.

The director of the FAO believes that the locust eradication campaigns will cost $150 million, and that even if final eradication of this pest takes place, the repercussions of the pesticides on animal husbandry will be negative. He called for the removal of livestock from areas which have been treated, considering that the liquid pesticides might threaten these animals with serious consequences.

Many of the experts currently supervising the locust eradication campaign believe that this matter would not have reached this degree of seriousness had cooperation taken place from the outset (in the fall) when the FAO announced locust swarm movement in Niger toward Mauritania and then into southern Morocco, where they laid the bases for eggs and hatching.

### Locusts Swarms Invade Central Region
*AB201348 Paris AFP in French 1148 GMT 20 Apr 88*

[Text] Banjul, 20 Apr (AFP)—Swarms of locusts were seen in the central part of The Gambia in the Farafenni and Mamour Fana localities, Sekou Sabally, the Gambian minister of agriculture, announced today. The Gambian minister added that 9 teams of experts were sent throughout the country to fight the locusts and that farmers received basic training to fight against the first invasions. He further said that the Gambian Government has nonetheless decided to call on the Senegalese authorities to join in the fight against the locusts.

The locusts, which have already devastated hundreds of thousands of hectares in the Maghreb, could also strike the Sahelian countries on a large scale. According to experts, swarms of locusts have already been spotted in Mali, Mauritania, and the northern and eastern regions of Senegal.

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FAO: LOCUSTS THREATEN AFRICAN FAMINE
BY PATRICK MOSER

NAIROBI, KENYA (UPI) _ SWARMS OF LOCUSTS ARE SPREADING ACROSS AFRICA, THREATENING TO DESTROY FOOD CROPS IN SEVERAL NATIONS AND RAISING NEW FEARS OF FAMINE, A UNITED NATIONS AGENCY SAID MONDAY.

EDOUARD SAOUMA, DIRECTOR-GENERAL OF THE ROME-BASED U.N. FOOD AND AGRICULTURE ORGANIZATION (FAO), SAID IN A STATEMENT RELEASED IN THE KENYAN CAPITAL THAT THE LOCUSTS AFFECTED THE ENTIRE SAHEL REGION _ A BELT OF NATIONS IN NORTH-CENTRAL AFRICA FROM THE ATLANTIC COAST IN THE WEST TO SUDAN IN THE EAST.

''THE SPECTER OF FAMINE AND EXTENDED FOOD SHORTAGES IS AGAIN HAUNTING RURAL POPULATIONS IN A NUMBER OF AFRICAN COUNTRIES NOW FACING THE LEAN MONTHS BEFORE THE NEXT HARVEST,'' SAID SAOUMA.

A SEPARATE FAO REPORT ISSUED TODAY WARNED THAT DESPITE EXTENSIVE CONTROL OPERATIONS, THE CURRENT INVASION OF DESERT LOCUSTS IS THE WORST IN AFRICA FOR 30 YEARS AND SERIOUSLY THREATENS HARVESTS.

THE AGENCY SAID IT WAS UNLIKELY THAT ENOUGH DESERT LOCUSTS COULD BE KILLED TO STOP THE PLAGUE. IT SAID FURTHER BREEDING COULD BE EXPECTED, LEADING TO A POTENTIAL LOSS OF UP TO ONE MILLION TONS OF CEREALS.

IN NORTHWEST AFRICA ALONE, THE COST OF COMBATTING THE PLAGUE TO DATE HAS AMOUNTED TO ABOUT $100 MILLION WHILE A FURTHER $90 MILLION WILL BE NEEDED BEFORE JUNE 1989, THE FAO SAID.

THE DESERT LOCUST IS THE MOST THREATENING OF THE NINE LOCUST SPECIES AND SWARMS THAT CAN INCLUDE UP TO 100 BILLION INSECTS ARE CAPABLE OF CHEWING SOME 2,000 TONS OF MIXED VEGETATION EVERY 24 HOURS.

THE FAO REPORT SAID THE LOCUSTS HAD REACHED WESTERN SUDAN WHERE THEY WERE EXPECTED TO BREED BEFORE MOVING ON TO ETHIOPIA AND THE ARABIAN PENINSULA.

THE LOCUSTS THREATEN TO SERIOUSLY AGGRAVATE THE ALREADY SERIOUS CRISIS IN SOUTHERN SUDAN, WHERE FAMINE HAS CLAIMED DOZENS OF LIVES THIS YEAR.

AFRICA'S LARGEST COUNTRY AND ONE OF THE WORLD'S HUNGRIEST, SUDAN IS WRACKED BY DROUGHT AND CIVIL WAR, WHICH THE FAO SAID ARE CONTINUING TO CAUSE PEOPLE TO LEAVE THEIR VILLAGES IN SEARCH OF FOOD.

EARLIER THIS YEAR, THOUSAND OF SOUTHERN SUDANESE REPORTEDLY DIED ON THE HARSH JOURNEY FROM THEIR DROUGHT- AND WAR-STRICKEN LAND TO NEIGHBORING WESTERN ETHIOPIA, WHICH HAS BEEN SPARED THE ACUTE FOOD SHORTAGES WHICH AFFECT MUCH OF THE REST OF ETHIOPIA.

DOZENS MORE HUNGER-RELATED DEATHS HAVE BEEN REPORTED IN MAJOR TOWNS IN SOUTHEAST SUDAN AND THE SOUTHWEST.

''I AM DEEPLY WORRIED ABOUT THE GRAVE FOOD SHORTAGES PREVAILING IN SOUTHERN SUDAN AND THE REPORTED DEATHS FROM STARVATION,'' SAOUMA SAID.

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UPI 07-11-88 09:58 AED

PLAGUE IN AFRICA

Senator INOUYE. Nearly two-thirds of Africa now is affected or threatened by swarms of insects of the size greater than anything we have seen this century. One swarm has been estimated to number 20 billion insects.

Each locust has the capacity of consuming five times its body weight each day, and en masse, they can in no time turn productive fields into wasteland. The plague now gripping Africa threatens to reverse all the progress made in agriculture by the nations of the Sahel, and neighboring regions over the last 10 to 20 years.

Past efforts to alleviate hunger and suffering may be negated. Indeed, the promise of economic recovery and food stability held out by the $500 million Africa fund which the Congress and the administration joined to establish this year could be vanquished overnight by these ravenous swarms. If this should happen, as it now appears it might, it will not be for want of early warning or the capacity of our scientists to combat the locust menace, but because we and others failed to react in time.

Those at the Department of State and A.I.D. who are charged with the responsibility of responding to reports from the field were asleep on their watch. They did not see the danger signs; they did not hear the pleas for help.

In January of this year, staff representatives of this committee traveled to west Africa. At that time the locust menace still lay on the horizon. The opportunity existed for the impending crisis to be averted. The United States embassy and the U.S. A.I.D. mission in Mauritania alerted our staff to the threat of the locusts. In early February, upon their return to Washington, these committee staff members personally reported their findings to A.I.D. They repeated the warnings of the mission officials, and on behalf of the A.I.D. mission, requested that prompt action be taken by responsible authorities.

Sadly, the message they carried from the field went unheeded. In fact, they were told that it was no big deal, that this mission had really nothing better to do, so they came up with this report.

As I believe the following extracts from the diplomatic cable traffic will demonstrate, officials in Washington did not respond to the repeated warnings of the U.S. mission in Mauritania. Apparently they quarreled among themselves over whose account was to bear the cost of fighting the locusts and who was to be responsible for directing the U.S. response.

Perhaps no one is to blame. Perhaps it was just the system that failed. But the tragic fact is that tens of thousands of Africans will perish in the weeks and months ahead as a result of delay.

And here is the chronology of the incompetence. On January 13, 1988, Situation Report No. 12 is sent from the A.I.D. field mission in Nouakchott, Mauritania to Washington alerting the State Department that the locusts were beginning to spread. The U.S. ambassador in Mauritania makes an urgent request to A.I.D./Washington for helicopters, pesticide and funds so that eradication efforts can begin while the locusts are still in their preadult stages of development. Washington is warned that the conditions for the spread of locusts are excellent.

January 30, 1988, Situation Report No. 13 is sent from the American Embassy in Mauritania, noting that conditions still are favorable for locust propagation, and requesting that immediate assistance be provided to relieve the situation. The A.I.D. mission reports that it has only about $30,000 left in its locust control budget, and that any further contributions to the control effort in Mauritania must come out of the A.I.D./Washington budget. Funds are requested for survey operations, satellite greenness maps and training.

I think as a footnote I should note that the last cable I reported on, the January 30 cable requesting funds was made available from A.I.D./Washington sources. We requested that this be made available from Washington sources; however, it was obtained during the staff trip to Mauritania, and it was not included in the cable traffic which Washington sent this committee.

On March 15, nearly 5 months after the initial reports of the locust plague were sent to A.I.D./Washington, nearly 2 months after urgent appeals for assistance came from the A.I.D. field mission in Mauritania, a response is sent, and the cable from Washington begins "A.I.D./Washington appreciates mission's efforts to provide us with timely updates on the desert locust outbreak. Your candid assessments of unmet needs are particularly helpful since they help us allocate scarce control campaign funds to the regions where they are most needed. Please advise immediately of any significant changes in the unmet needs."

And what A.I.D. did offer was $468,000 for additional surveys, the services of one entomologist and technical assistance, and I am certain all of us would agree that this was just a drop in the ocean, for a crisis that had now reached catastrophic proportions.

And I think this record is astonishing, to say the least, and the results are tragic.

### PREDICTION ON LOCUST PLAGUE

Why did OFDA and the international community fail to predict the current locust plague or its magnitude?

Ms. TAFT. Sir, I think that one of the problems has been all along that nature, rain fall and wind patterns determine the course of locust swarms and locust expansion. This problem is currently, as underscored by you, of plague proportions. Never since the early 1950's has it been this bad.

But I would like to spend just a minute giving you a retrospective overview of A.I.D.'s continuing involvement in this, and then I would like to elaborate on the desert locust problem.

Senator INOUYE. Before we go any further, you do agree that it is catastrophic.

Ms. TAFT. No, I do not know if it is catastrophic. I know it is severe. If the rains stopped tomorrow, the hoppers would die.

I do believe that it is a major concern. We are seized with it in our office. The Agency itself is working very hard to prepare a response. We have allocated more money this year in the last 5 months than we provided in either of the previous 2 years.

But I think we owe you an update, and I am prepared now to give you the update on what my office is doing. Please appreciate the fact that I am only representing one piece of the response to a very complex and unprecedented problem for the United States and this region.

### PREPARED STATEMENT

Senator D'AMATO. Mr. Chairman, I ask permission to submit a statement into the record as if read in its entirety, and two questions, Mr. Chairman, at the end of your questions, if they might be submitted for the record as well.

Senator INOUYE. Without objection, so ordered.

[The statement follows:]

### PREPARED STATEMENT OF HON. ALFONSE D'AMATO

#### U.S. SENATOR FROM NEW YORK

Mr. Chairman. I welcome David Santos, Director of the American Schools and Hospitals Abroad Program; Julia Taft, of the Office of U.S. Foreign Disaster Assistance; Herbert L. Beckington, A.I.D. Inspector General; Neal Peden, Assistant Administrator for the Bureau of Private Enterprise; and Peter Kim, Director of Housing and Urban Programs. I look forward to your testimonies.

The administration's fiscal year 1989 request of $6.16 billion for A.I.D.'s Bilateral Assistance Program is only a slight increase over the fiscal year 1988 figure of $6.13 billion.

I want to express my particular concern over the fiscal year 1989 request of only $30 million for the American Schools and Hospitals Abroad Program. Although it is more than the usual request for this important program, it falls far short of this year's funding of $40 million for ASHA. For years, the administration has tried to emasculate this program, and each year Congress is forced to restore proper funding levels. Last year, I cosponsored a successful amendment to increase funding for ASHA to $40 million.

The ASHA Program is one of our major foreign policy successes. The United States is the leader in medical care and education and ASHA shares this useful knowledge with friendly and needy countries. ASHA fosters a positive U.S. image abroad while expanding the benefits of our advanced technology. I am confident that this committee will once again restore funding for the American Schools and Hospitals Abroad Program.

I look forward to working with you all regarding these programs during the difficult budget process this fiscal year.

Thank you, Mr. Chairman.

### UPDATE ON A.I.D. RESPONSE TO LOCUST INFESTATION IN AFRICA

Ms. TAFT. In 1986, the Food and Agricultural Organization [FAO] raised a red flag and said, "For the first time in 60 years we predict the outbreak of five species of locust and one species of migratory grasshoppers throughout the Sahelian and southern African countries." After many years of drought, the rains had finally started coming in 1986, and as a result FAO expected a major plague.

That got our attention, particularly when they said that grasshoppers and locusts had the potential of consuming 20 percent of the vegetation in the world. The Office of Foreign Disaster Assistance, which responds, as you know, to immediate crises, immediately went into full gear and we began a major campaign using the assets of the U.S. Forest Service, USDA, A.I.D., and our missions, et cetera, to mobilize a major control operation as part of the international assistance effort.

During 1986 we worked in 15 different countries, all of which declared disasters. We provided technical assistance, we helped in the assessments, and we provided airlifts, surveys, and pesticides. We really helped run those programs.

We took the lead role in establishing in each country a framework for donor coordination, training for crop protection people, and trying to involve the FAO and other donors. We established frameworks for pesticides of choice to make sure that only environmentally safe pesticides would be used, and we had a great deal of leverage, having invested at that time 20 percent of the total commitments of donors. Twenty percent was from our funds in OFDA and we used it to leverage other donations.

Senator INOUYE. How much was that?

Ms. TAFT. We spent $7.5 million—$7.2 million from OFDA and $330,000 from the Africa Bureau. Now, that covered, as I say, 15 different countries: red locusts, brown locusts, desert locusts, migratory locusts and grasshoppers. After that cycle which ended about January or February 1987, we began discussions with the Africa Bureau saying that we think the worst is over, and that the Bureau must look at this as part of its crop protection program.

A couple of months later, FAO again raised the red flag and said, "We thought 1986 was going to be terrible, but 1987 is really going to be terrible."

So we immediately decided that we would do something different. We had not had the time the year before to preposition supplies, but we did have time now. We provided out of our office during 1987 $8.5 million in pesticides, training in control and pesticide disposal techniques, equipment, radios, and technical assistance. We provided assistance to every one of the affected countries, and fortunately, the infestations did not reach plague proportions.

I do not know how much was due to the fact that we were ready to respond, but we have had a very successful 1986 campaign.

In 1987 the problems were not as great as had been expected. And we entered the 1987 campaign with a whole lot of pesticides in place. We had the equipment in place, we had the radios in place, and we had the training in place.

We continued this program through all of 1987.

At that time, in November 1987, OFDA was faced with a series of other major disasters. (We had 54 in 1987 and we have had a large number already in 1988.) We worked with the Africa Bureau to determine how best we should approach this if it was going to become an ongoing problem of crop protection. There were no early signals in October 1987 that there were going to be major outbreaks.

The Africa Bureau, in November, assumed responsibility for agency coordination of ongoing control projects, pesticide research, pesticide testing, and training for all of the pest problems in Africa. There was a transmittal to the field in November which indicated that this was to be part of the Africa Bureau's program.

In late November, the issue of desert locusts started coming up. The reports that we were receiving from Mauritania stated that locusts were there. We had had desert locust sightings in Chad, and we have been working on the Chadian desert locusts.

We also started getting grave reports out of Morocco. In Morocco, the Ambassador declared a disaster and asked for our assistance. OFDA provided immediate aid in response to the disaster declaration. We have not had any Sub-Saharan Africa locust disaster declarations, so we have been focusing primarily on the Morocco problem. As you know from the geography and the history of the pattern of flight for desert locusts, they can come from Chad, western Sudan, Eritrea, Tigray, et cetera, and swoop up to Mauritania, but eventually most of them, according to the experts, go to Morocco.

In November they were in Morocco near the Atlas Mountains. We immediately responded to assistance for Morocco while we were continuing interventions in other places.

Since November we have spent over $2.5 million on Moroccan control, including planes, malathion, technical assessment teams, pesticides, et cetera. We have also undertaken a major response in Tunisia and are helping Algeria.

In the meantime, the Africa Bureau has been monitoring the situation and working with the Sub-Saharan African countries.

[The statement follows:]

## STATEMENT OF
## JULIA V. TAFT
## DIRECTOR, OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to present the Administration's fiscal year 1989 request for International Disaster Assistance. As you know, none of us can forecast with any certainty the number and magnitude of future disasters, whether man-induced or from natural causes. Already, in the third quarter of this year, we have responded to 27 new disasters totaling $25.7 million in emergency relief assistance. This year we are operating under an appropriation of $25 million (augumented by carryover funds and our borrowing authority) knowing that in extraordinary circumstances our existing legislative authorities can be brought to bear to meet humanitarian disaster relief assistance to stricken nations.

The past several years have been a time of continuing, unprecedented human suffering resulting from natural and man-made disasters. Fiscal year 1988, to date, has been no exception.

There have been major cyclone disasters in the Philippines and Vanuatu; locust and various insect infestations in six African countries; floods in Argentina, Brazil, Lesotho, Costa Rica; food shortages in Malawi and South Africa; drought in Niger, Sudan, and Uganda; epidemics in Sudan, Guinea-Bissau, Mali, Mauritania and Benin; civil strife in Mozambique, Ethiopia, southern Sudan, Panama and Sri Lanka, and other disasters to which the Office of U. S. Foreign Disaster Assistance (OFDA) has provided immediate assistance. These events have claimed thousands of lives throughout the world and have affected hundreds of thousands more. At the same time millions of people continue to be at risk due to further insect infestations, drought impacts, civil strife, fire, and epidemic, felt most severely in sub-Saharan Africa and the Horn of Africa.

All this occurs against a backdrop of diminishing real funding levels for development assistance and disaster relief accounts. As a result, we are refocusing our efforts away from costly commodity deliveries and equipment expenditures to the provision of technical experts and assistance in disaster management and operations. We believe this concentration on using people and their expertise to address actual and impending crises is the most cost-effective, major contribution we in A.I.D. can make. Nevertheless, the provision of rapid, appropriate emergency relief supplies remains the primary goal and highest priority.

In addition we are working with A.I.D.'s regional bureaus to increase their program attention toward disaster mitigation. Examples include a joint seed program for Bangladesh this past year to ensure that the effects of devastating floods do not lead to a food shortage; a collaborative Economic Support Fund (ESF) program for locust control in Morocco; and support for Bureau for Africa's leadership in mobilizing crop protection training and campaign support for locusts in the Sahel. As we see the number of severe disasters escalate, we firmly believe disaster mitigation and response must be a mutual effort, not merely the responsibility of this office.

OFDA is requesting $25.0 million for the fiscal year 1989 International Disaster Assistance program. The proposed program includes $19.0 million for worldwide disaster relief and $6.0 million for non-relief programmed activities such as technical assistance, country preparedness, contingency planning, training, hazards analysis, warning, and public awareness of disaster impacts. These activities are managed under OFDA's three regional divisions and under its Operations Support Division, all designed to increase the cost-effectiveness and prudent allocation of emergency relief assistance.

OFDA's emergency relief coordination capability will be significantly improved in fiscal year 1989 due to more sophisticated regional and global communications systems, full implementation of disaster command and control procedures in A.I.D., and close cooperation with and logistics support from the Department of Defense regional commands.

Declared disasters will continue to be managed by senior staff within each geographic division of OFDA. Emphasis will be placed on using knowledgeable A.I.D./Washington regional bureau personnel and field mission expertise in linking the most appropriate disaster response to strategic planning for development. In fiscal year 1989, OFDA expects to fully utilize satellite-based portable communications between disaster sites, A.I.D. missions, and Washington, including on-site disaster data transmission and instantaneous communications.

A number of objectives will be pursued by OFDA's Operations Support Division in fiscal year 1989 in support of the geographic divisions. These include the following: 1) systematically define OFDA's operational response criteria, 2) revise action procedures including documentation of lessons learned, 3) improve emergency planning based on increased warning leadtimes, 4) establish procedures for increased use of local currency for local purchase of emergency commodities, and 5) deploy search and rescue assistance teams when necessary. In addition, OFDA will continue the following initiatives: 1) stockpile light extrication search and rescue equipment, 2) develop closer ties with emergency medical and mass casualty experts, 3) establish new co-funding agreements with other agencies of the U. S. Government, and 4) enhance contingency planning at the regional and host country levels. We will also continue to pursue a variety of donor coordination efforts with private and voluntary organizations, international organizations and other countries, which will result in improved stockpiling, needs assessment and response coordination. By using OFDA funds to leverage and facilitate expanded private sector donations, we will also be able to broaden the impact of our resources.

Clearly, by September 1989, I expect to find OFDA's relief and rehabilitation strategy having integrated these initiatives into a fully coordinated, strengthened, U.S. Government rapid "first response" capability which (1) saves lives and reduces suffering, (2) clearly demonstrates U.S. humanitarian concern for victims of foreign disasters and (3) demonstrates U.S. Government operational technical assistance in support of host country disaster management.

Mr. Chairman, I am pleased with the performance and progress made by the Office of U. S. Foreign Disaster Assistance in 1988 and am hopeful that given the resources we are requesting, we can continue to assist those in greatest need abroad. I can assure you of our continuing dedication and perseverence in coordinating the U.S. Government response to foreign disasters. Furthermore, I want to assure you of my personal commitment in meeting the critical needs of the less fortunate in the face of disaster. With your help and cooperation, I am sure we can achieve the goals and objectives outlined in our fiscal year 1989 Congressional Presentation.

### A.I.D. RESPONSE TO LOCUSTS IN MAURITANIA AND NORTHERN AFRICA

Senator INOUYE. So you believe that your response to the Mauritania plea was timely?

Ms. TAFT. Well, I know Mauritania had the presence of locusts. One report that we had from the field was that there were 250,000 sparsely infested hectares. You cannot control, with any degree of cost effectiveness or efficiency, 250,000 hectares in Mauritania. There were concentrations in western Sahara later, which as you know, is a difficult place in which to provide international assistance. Algeria was working there and Morocco was working there. For Mauritania, during 1987 and the fall of 1987 we had been providing assistance out of Senegal, out of Mali, and we supported Algeria in its help to Mauritania. They were getting support from lots of different sources.

It may not have been enough, but as you quoted Jefferson earlier, "to have tried and made some errors is better than doing nothing." I believe we tried; we put a lot of effort into the entire campaign and have for 2 years. And you have to make judgments as to whether or not you can have the kill rate you need and be environmentally safe and be responsive. The decisions that have been made all along have been based on the best judgment available.

One has to understand that there are only a handful of people who know about desert locusts. The last plague was 30 years ago. I think there are about 10 or 12 people in the world who understand the entomological nuances of desert locusts.

We have been very fortunate, sir, to have working with us two of those people, and we have funded, through FAO and other organizations, the deployment of several others. But this is a very difficult problem.

We are not really sure whether locusts can be controlled. I can tell you that the idea that hundreds of thousands of people are going to die of starvation in a few weeks is not correct. That is true in other places relating to other disasters, but it is not true relating to locusts. I do agree that we need to have an international program which controls it as best as possible. FAO did hold a meeting in April in Rome with the USAID and other donors. The U.S. Government delegation was led by the Africa Bureau which was responsible within A.I.D. for locust matters. At that meeting, FAO did discuss in detail what they knew then about the locust problem, and said that they thought it required about a $40 million intervention.

At that pledging conference, which I believe you have a record of, the United States committed about $13 million of the $40 million to assistance.

Between the time that that conference was held and our teams went again to Tunisia and Morocco and reported back to us about April 20, the problem had grown substantially. FAO has subsequently revised its own estimates. Locust infestations are very dynamic things. Again, they depend on the weather, the rain and the winds.

FAO estimates now, one month after the international meeting, are quadrupled in terms of what international control efforts should be.

So we are trying to sort this new information out. I had the opportunity last week to meet and discuss this with your principal staff people. Obviously $13 million is not enough. One has got to figure out where to spend more money and whether it makes sense to spend more, and to keep the pressure on FAO to do its part of the job.

### GREENNESS MAPS

Senator INOUYE. Do we have greenness maps?

Ms. TAFT. Yes, sir, we do.

Senator INOUYE. Did you make those available as requested?

Ms. TAFT. We have done that. We did that in the past campaign. We have just gotten a request now from Tunisia for greenness maps which our office will fund. Instead of greenness maps just for Tunisia, I would like to see if we could get them for the whole area, including Morocco and Algeria.

In Morocco alone, there are 1 million hectares that have been sprayed. In Algeria there are a million hectares. There is a lot of land out there that is pretty far away from everything, but we think that the maps are useful.

What they indicate every 10 days is whether the vegetation is getting green or whether it is not. If in one 10-day period it shows green and in the next 10 days shows no green, and you know what the weather was like, you can figure out whether locusts have been there.

The problem is these locusts can fly hundreds of kilometers a day. So you never can really quite figure out where they are going to be, but where it is green, we know they are eventually going to get there. So you send your resources to the places that are green with the assumption that, if the prevailing winds are such that they can get there, you can target control efforts in those areas.

Senator INOUYE. Were these maps made available to Mauritania as requested?

Ms. TAFT. I will have to check, sir. If they were requested, I am sure they were provided.

Senator INOUYE. You indicated that the prediction that tens of thousands will die as a result of this locust infestation is wrong.

Ms. TAFT. Yes, sir, I believe it is wrong.

Senator INOUYE. Then am I correct to assume that your assessment is that a shortfall of available food would be very minimal?

Ms. TAFT. No, sir. Let me back up.

In 1986, one of the reasons we put so much energy into this was that the countries of Africa that have been starving and suffering so much from the drought finally got the rains. It was unconscionable for us to think that after they had suffered and were finally able to plant, and the rains finally came, that their crops would be destroyed and they would have to start again. We could provide food, as we had very generously in previous years. But that wasn't the point.

Right now we are looking at what crops have been destroyed and examining the requirements for food next year to supplant that. There are some people who feel that that is a more cost effective way to go. I do not share that view, but that is a view.

We are looking, however, in the Magreb where crops are really the economic and political stability of many of these countries, and you cannot really help those situations just by providing food the following year. There is an economic and a political mandate to provide immediate assistance, and quite frankly, I feel those countries that have declared disasters and are most reaching out for assistance have received it from OFDA.

### FOOD REDUCTION CAUSED BY INFESTATION

Senator INOUYE. Do you then disagree with the FAO assessment that this infestation will result in food reduction by 20 to 30 percent?

Ms. TAFT. I have seen that assessment. All of that is based on conjecture. If it is as bad as the worst projections, they are probably right.

Senator INOUYE. Are we doing anything to meet this possible conjecture?

Ms. TAFT. What we are focusing on are the control campaigns in the principal countries.

I am not aware of the prepositioning of food in the event that crops are destroyed. Many of the areas that have had the infestations and the control efforts contain wild vegetation and grasslands. They are not croplands.

We did, however, receive a report just yesterday that Senegal expects, by July or August, infestations in their very fertile crop land. This is of great concern to us.

Senator INOUYE. Then you believe that the suggestions and charges made that the response was minimal and untimely would be unfounded?

Ms. TAFT. I would say, very frankly, sir, that we may have made a mistake in Mauritania. I will say, however, that in every other country, and every country that we have responded to for over 2 years, we have done everything we could. We have worked hard on that. I don't think anybody could have predicted what has happened in Mauritania. Hindsight is always easier.

Maybe if we had tried to spray in the western Sahara, which is really basically the area that was required, it might have had some beneficial effect. There was an assessment team that did get to western Sahara and was told, "you had better leave because you are standing on a landmine."

We have not lost any lives in our locust campaign yet with the exception of three people that I sent to Senegal last year that were in a plane crash while they were spraying.

Senator INOUYE. I have several other questions which I would like to submit for your consideration.

Ms. Taft. Yes, sir.

If I might be so bold as to say, I believe this is an important enough issue and one that really merits full Agency participation. I recommend that you, or some other appropriate committee, have a formal hearing on this.

I believe we are going to have a reassessment by next week on what direction we should be going. I would like to share the opportunity with other colleagues of mine on what the overall strategy will be.

Senator Inouye. We will take your suggestion, and we will have one.

Ms. Taft. Do I have to come?

Senator Inouye. It would be very helpful, I think.

Senator Mikulski?

Senator Mikulski. Senator Inouye, I have no questions. I think you have covered this issue quite thoroughly.

My questions are more for the Inspector General.

Senator Inouye. I thank you very much.

Ms. Taft. I do not get to tell you about the other great things we are doing in the office?

We do more than locusts, you know. We have Ethiopia, we have Mozambique, we have cyclones, we have fires, we have starvation, civil strife. There are many exciting, humanitarian programs that we are working on.

Senator Inouye. We would like to spend all of our time speaking of the positive things, but you know, we have four agencies here. So we are well aware of the good work you are doing.

Ms. Taft. Thank you for your patience. I look forward to seeing you soon.

Senator Inouye. Thank you very much.

## INSPECTOR GENERAL

## STATEMENT OF HON. HERBERT BECKINGTON

### BUDGET REQUEST

Senator INOUYE. Our next witness will be the person that Senator Mikulski is waiting for, the A.I.D. Inspector General, the Honorable Herbert Beckington.

Mr. BECKINGTON. With your permission, I would like to bring Mr. Durnil, the Deputy Inspector General, to the table.

Senator INOUYE. He is always welcome.

Mr. BECKINGTON. Thank you, sir.

Senator INOUYE. General Beckington, you are always welcome, sir.

Mr. BECKINGTON. With your permission, Mr. Chairman, I will submit for the record my opening statement and very briefly summarize.

Senator INOUYE. It has been made part of the record.

Mr. BECKINGTON. The basic request that I am supporting this morning for the Inspector General operations for fiscal year 1989 is $23.1 million. That is slightly less than the $23.9 million provided by the Congress for the current fiscal year. At the requested level of $23.1 million, we will be able to maintain the Inspector General functions of audit, investigation and security at approximately the same levels that we have maintained in recent years. That means, as I testified last year, that we will be auditing at most about one-fourth of the expenditures associated with the American foreign aid program on a 5-year cycle.

### IG ACCOMPLISHMENTS

The accomplishments of Inspector General operations over the past year, in a dollar sense, are reflected, Mr. Chairman, on page 2 of my statement. Those numbers I think indicate fairly effective audit work and fairly responsive attention by the agency to those reports.

Investigative results in the same period have resulted in nine criminal convictions and 72 disciplinary actions of A.I.D. American and Foreign Service employees and some 33 suspensions and debarments of contractors and individuals.

As in past years, I would like again this year to mention just two or three specific areas of concern that I have arising from audit work done during the past year.

### LOCAL CURRENCY

The first of those areas deals with the subject of local currency. Significant amounts of local currency accrue in many of the countries in which A.I.D. programs operate, principally as a result of commodity import programs, PL–480 Title I programs, and in more recent years, ESF cash transfers.

We have found repetitively in our normal audit oversight what I regard as serious problems of accountability and control over those local currency assets in several of these countries. I am of the opinion, as a matter of fact, that the whole question of the management of local currency assets is a very serious one for the agency at this point in time. I think the administrator recognizes this, is very concerned about it, and has in fact a special study group operating at the present time to examine the way in which we as an agency handle, deal with, account for and control these local currency assets, and I intend in the weeks and months ahead to be making certain recommendations to him as you might expect.

It is my own personal opinion that perhaps some legislative change in the future may be necessary to enhance and improve our controlling of these local currencies.

### ESF CASH TRANSFERS

A second area that I would mention, Mr. Chairman, deals with the recent requirements placed in the law to have separate accounts for ESF cash transfers of dollars and any local currency amounts that may accrue associated with those transfers. Until now, although the requirement dates back to February of 1987, the agency has not put into place an effective system that ensures that the law will be followed, and followed carefully and precisely.

I have made no actual formal report of this, but I have internally with memoranda and discussions made this concern known, and I think the agency now is paying very close attention to it, and I have every reason to believe that this problem will be corrected in the immediate future, I would think.

### FAILING A.I.D. PROJECTS AND PROGRAMS

Finally, the thing I want to bring to the committee's attention, the concerns that I continue to have over the agency's difficulty in dealing with failing or faltering A.I.D. projects or programs around the world. Here I am referring to the fact that aid is a risky business. Not everything we try to do is successful.

All sorts of conditions affect the carrying out of an A.I.D. project over their normal life spans of several years. The agency does have a system that tends, I think, rather effectively to identify these problems at a reasonably early point as they begin to develop. What I am not finding in the course of my normal work is a decisive follow-up on the part of agency management to deal with these problems either by cancelling the program, if indeed it calls for something as severe as that, or by significant alterations of design, schedule, scope or whatever may be called for. And I think the agency needs to improve its performance in that regard. and this is a problem that tends to cover all the regional bureaus and the central bureaus that have projects at the various places around the world.

## NONFEDERAL AUDIT PROGRAM

One final note, Mr. Chairman. Last year I reported for the first time on what we call the nonfederal audit program administered by the Inspector General. These are audits conducted by private accounting firms around the world, usually associated, almost always associated with major American accounting firms. They check for financial compliance and integrity of A.I.D. programs, A.I.D. funded programs around the world. In the 6 months ending March 31, 1988 we had 51 such reports.

It is a real strengthening, I think, of the accountability oversight that we are able to maintain, and it is disturbing to me that up until now, approximately two-thirds of these reports, which are essentially CPA reports of the financial aspects of a particular operation, the accounting firms are finding conditions to be sufficiently chaotic that they are unable to express an unqualified opinion.

That is my summary, sir, and I am prepared to answer your questions.

[The statement follows:]

# STATEMENT OF
# HERBERT L. BECKINGTON
# INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPMENT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE FISCAL YEAR 1989 BUDGET REQUEST FOR THE OPERATING EXPENSES OF THE A.I.D. OFFICE OF INSPECTOR GENERAL. WITH ME TODAY IS MR. JAMES B. DURNIL, DEPUTY AND ALSO ASSISTANT INSPECTOR GENERAL FOR AUDIT.

## THE BUDGET REQUEST

THE FISCAL YEAR 1989 BUDGET REQUEST FOR THE SUPPORT OF THE A.I.D. INSPECTOR GENERAL FUNCTION IS $23.12 MILLION. IT WILL PERMIT CONTINUATION OF IG OPERATIONS AT A LEVEL SOMEWHAT BELOW THAT OF THE CURRENT FISCAL YEAR'S APPROPRIATION OF $23.97 MILLION OR AT ABOUT THE LEVEL OF THE YEARS PRIOR TO 1988. AS I TESTIFIED BEFORE THIS COMMITTEE LAST YEAR, THAT PERMITS ME TO MAINTAIN A HIGHLY SELECTIVE AUDIT OVERSIGHT OF ABOUT 25% OF THE FOREIGN AID DOLLARS ENTRUSTED TO MY AGENCY AND TO DO THIS ON A FIVE-YEAR CYCLE. ON THE INVESTIGATIVE SIDE WE WILL CONTINUE TO LIMIT OUR INVESTIGATIONS TO THOSE SITUATIONS IN WHICH PRELIMINARY INQUIRY LEADS US TO BELIEVE SERIOUS INFRACTIONS OF LAW OR REGULATION HAVE PROBABLY OCCURRED. EXPENDITURES FOR OVERSEAS PHYSICAL SECURITY NEEDS WILL BE DEFERRED TO A SUBSTANTIAL EXTENT AS WILL REQUIRED PERSONNEL SECURITY UPDATES OF THE A.I.D. WORKFORCE.

## ACCOMPLISHMENTS OVER THE PAST YEAR

FOR THE YEAR ENDING APRIL FIRST 1988 THE IG ISSUED 343 AUDIT REPORTS INCLUDING THOSE OF THE NON-FEDERAL AUDIT PROGRAM WE NOW HAVE IN PLACE. USING THE CATEGORIES AS STANDARDIZED AND DEFINED BY OMB THESE REPORTS REFLECT THE FOLLOWING RESULTS:

| APRIL 1, 1987 - MARCH 31, 1988 | AMOUNT |
|---|---|
| ECONOMY AND EFFICIENCIES | $187 MILLION |
| RECOMMENDED RECOVERIES OR DEOBLIGATIONS | 36 MILLION |
| SUSTAINED RECOVERIES OR DEOBLIGATIONS | 18 MILLION |
| ACTUAL RECOVERIES OR DEOBLIGATIONS | 21 MILLION |

DURING THE LAST YEAR, OUR AUDITS IDENTIFIED $187 MILLION THAT AGENCY MANAGERS COULD USE MORE EFFICIENTLY OR ECONOMICALLY AND $36 MILLION THAT SHOULD BE EITHER DEOBLIGATED OR RECOVERED. ON RECOMMENDATIONS MADE DURING THIS YEAR AND PRIOR YEARS, AGENCY MANAGERS SUSTAINED AND AGREED TO RECOVER OR DEOBLIGATE $18 MILLION. $21 MILLION WAS ACTUALLY DEOBLIGATED OR COLLECTED DURING THE PAST YEAR. I BELIEVE THESE RESULTS REFLECT BOTH AUDIT WORK OF SOUND QUALITY AND GENERALLY SERIOUS ATTENTION BY THE AGENCY TO THE REPORTS' RECOMMENDATIONS.

INVESTIGATIVE RESULTS OVER THE SAME PERIOD INCLUDED 9 CRIMINAL CONVICTIONS AND 72 DISCIPLINARY ACTIONS FOR A.I.D. AMERICAN AND FOREIGN SERVICE EMPLOYEES. IN ADDITION, INVESTIGATIVE WORK LED TO A TOTAL OF 33 DEBARMENTS AND SUSPENSIONS OF FIRMS AND INDIVIDUAL CONTRACTORS DURING THE YEAR.

## PROBLEM AREAS

IN PREVIOUS TESTIMONY BEFORE THIS COMMITTEE I HAVE REPORTED ON PROBLEMS IN THE CONDUCT AND IMPLEMENTATION OF THE FOREIGN AID PROGRAM THAT HAVE COME TO MY PARTICULAR ATTENTION AS A RESULT OF OUR AUDIT AND INVESTIGATIVE EFFORTS. THERE ARE THREE SUCH AREAS I WANT TO REPORT ON. EACH ILLUSTRATES ONCE AGAIN THE DIFFICULT ENVIRONMENT SURROUNDING U.S. AID PROGRAMS IN DEVELOPING COUNTRIES AND THE RESULTING VULNERABILITY OF THE PROGRAMS TO FRAUD, WASTE, ABUSE AND MISMANAGEMENT.

FIRST, I WANT TO BRIEFLY DISCUSS PROBLEMS ASSOCIATED WITH THE SIGNIFICANT AMOUNTS OF LOCAL CURRENCY THAT HAVE ACCRUED IN MANY AID ASSISTED COUNTRIES. THESE CURRENCIES DERIVE FROM THE SALE OF P.L. 480 COMMODITIES, FROM ESF CASH TRANSFERS AND FROM COMMODITY IMPORT PROGRAMS. I THINK OF THEM AS BEING ONE BOUNCE AWAY FROM THE APPROPRIATED A.I.D. DOLLAR.

THE PROBLEMS WE ARE IDENTIFYING WITH LOCAL CURRENCY CENTER AROUND ACCOUNTABILITY AND CONTROL. A.I.D. CONSIDERS THESE CURRENCIES TO BE HOST COUNTRY OWNED. TYPICALLY, OUR AGREEMENTS REQUIRE THEM TO BE PROGRAMMED FOR MUTUALLY AGREED UPON DEVELOPMENT PURPOSES. TO DO THIS EFFECTIVELY OBVIOUSLY REQUIRES THAT WE KNOW IN A TIMELY AND CONTINUING WAY THE STATUS OF THESE BANK ACCOUNTS IN A PARTICULAR COUNTRY, AND THAT THE TWO COUNTRIES' REPRESENTATIVES AGREE TO THE USES OF THESE RESOURCES IN A REASONABLY EXPEDITIOUS FASHION.

DIFFICULTIES OVER ACCOUNTABILITY FOR THESE FUNDS ARE

EXEMPLIFIED BY A REPORT ON THE SUDAN AID PROGRAM WHERE WE FOUND THE EQUIVALENT OF 76 MILLION IN U.S. DOLLARS HAD NOT BEEN PROPERLY ACCOUNTED FOR AND COLLECTIONS OF THE EQUIVALENT OF 99 MILLION IN U.S. DOLLARS TO BE DELINQUENT. SIMILAR PROBLEMS WERE FOUND IN BURKINA FASO, KENYA AND ZAMBIA.

DIFFICULTIES IN DIRECTING THE USE AND APPLICATION OF THESE CURRENCIES FOR DEVELOPMENT PURPOSES ARE DESCRIBED IN REPORTS DEALING WITH OUR AID PROGRAMS IN EGYPT AND AGAIN KENYA. IN EGYPT LARGE AMOUNTS OF LOCAL CURRENCY HAVE ACCUMULATED--WE BELIEVE SOMEWHERE AROUND 300 MILLION U.S. DOLLAR EQUIVALENT IN LOCAL CURRENCIES SHOULD BE ON DEPOSIT IN THE CENTRAL BANK IN CAIRO. OUR MISSION IN EGYPT APPEARS TO BE HAMPERED IN INFLUENCING THE JOINT PROGRAMMING OF THESE CURRENCIES. IN 1986 THE A.I.D. MISSION IN CAIRO REQUESTED THE PROGRAMMING OF 190 MILLION U.S. DOLLAR EQUIVALENT. THE GOVERNMENT OF EGYPT AGREED ON THE USE OF ONLY $39 MILLION. A REGRETTABLE ANOMALY EXISTS HERE. DURING THE SAME PERIOD IN WHICH LARGE AMOUNTS OF LOCAL CURRENCY REMAINED IDLE IN THE ACCOUNTS OF THE CENTRAL BANK THE CAIRO MISSION WAS FORCED TO PURCHASE 132 MILLION DOLLARS WORTH OF LOCAL CURRENCY FOR THREE A.I.D. PROJECTS ALONE--USING U.S. APPROPRIATED DOLLARS. IN KENYA WE FOUND A SITUATION IN WHICH KENYA-U.S. AGREEMENT OVER PROGRAMMING OF APPROXIMATELY $24 MILLION IN LOCAL CURRENCY WAS DELAYED FOR SO LONG THAT APPROPRIATED A.I.D. DOLLARS HAD TO BE USED TO COVER A LARGE CONTRACT SHORTFALL.

NEXT, I WANT TO BRIEFLY REPORT TO THE COMMITTEE ON THE AGENCY'S IMPLEMENTATION OF THE SEPARATE ACCOUNT LEGISLATION FOR ESF CASH TRANSFERS, AN AMENDMENT NOW A LITTLE OVER A YEAR OLD. I BRING THIS UP AS A STATUS REPORT RATHER THAN AS A PROBLEM AREA PER SE. WE HAVE MONITORED THE AGENCY'S ADHERENCE TO THIS NEW STATUTORY REQUIREMENT WHICH BECAME EFFECTIVE IN FEBRUARY 1987, A YEAR AGO. THE AGENCY HAS YET TO DEVISE A FUNCTIONING SYSTEM TO ENSURE COMPLIANCE WITH THE LAW. WE HAVE IDENTIFIED INSTANCES OF NON-COMPLIANCE WHICH APPEAR TO STEM FROM LACK OF FAMILIARITY AND UNDERSTANDING OF A NEW REQUIREMENT SHARPLY AT VARIANCE WITH LONG STANDING AGENCY PRACTICE AND USAGE. I CAN FURTHER REPORT THAT WITH THE EXPOSURE OF THESE INSTANCES THE AGENCY'S FINANCIAL MANAGERS ARE NOW INVOLVED IN A FOCUSED EFFORT TO ENSURE COMPLIANCE. FROM THE STANDPOINT OF MY RESPONSIBILITIES AS INSPECTOR GENERAL I WELCOME THE SEPARATE ACCOUNT PROVISION. FOR THE FIRST TIME IT MAKES IT POSSIBLE FOR US TO KNOW AND THUS REPORT TO THE CONGRESS AND THE TAXPAYER WHAT USE IS BEING MADE OF THOSE TRANSFERRED DOLLARS AND ANY

RESULTING LOCAL CURRENCY. IN THE PAST WE REALLY HAVE NOT HAD THIS ABILITY. SECONDLY, FROM A PROGRAM STANDPOINT, BY KNOWING HOW THIS MONEY WAS USED, WE CAN MORE ADEQUATELY ASSESS ITS PROGRAM IMPACT OR EFFECTIVENESS. THIS IS A DEPARTURE FROM A HOPE AND BELIEF THAT THEY ARE CONTRIBUTING TO SOME GENERALLY DEFINED "MACROECONOMIC " BENEFIT.

ANOTHER AREA OF CONCERN REFLECTED IN INSPECTOR GENERAL REPORTING IS THE AGENCY'S ABILITY TO IDENTIFY AND ACT UPON IN A TIMELY FASHION PROJECTS OR PROGRAMS WHICH ARE FAILING, OR THREATENING TO FAIL, BECAUSE OF PROBLEMS ASSOCIATED WITH THEIR DESIGN, CHANGING CIRCUMSTANCES, LACK OF HOST GOVERNMENT SUPPORT, CONTRACTOR PERFORMANCE, ACCOUNTABILITY OR IMPLEMENTATION, TO LIST JUST SOME. THE AGENCY HAS AN ESTABLISHED SYSTEM FOR IDENTIFYING TROUBLED PROJECTS. WE HAVE FOUND THAT THE SYSTEM DOES TEND TO GENERALLY ALERT AGENCY MANAGEMENT TO TROUBLED PROJECTS. WHAT WE ARE FURTHER FINDING TOO FREQUENTLY, HOWEVER, IS A FAILURE BY MANAGEMENT TO ACT FIRMLY AND PROMPTLY TO INSTITUTE CORRECTIVE ACTION. THE RESULT IS THAT WE TOO OFTEN FIND AID PROJECTS CLEARLY FAILING TO ACHIEVE INTENDED DEVELOPMENT GOALS OR CLEARLY MOVING IN THAT DIRECTION THAT ARE NOT RECEIVING THE KIND OF HIGHLIGHTED MANAGEMENT ATTENTION NEEDED TO EITHER CANCEL THEM, REDIRECT THEM OR SHARPLY REVISE ORIGINAL PROJECT GOALS. WE HAVE FOUND INSTANCES OF THESE, THAT FIT THE CATEGORY OF TROUBLED PROJECTS, THAT LIMP ALONG FOR YEARS. THE POTENTIAL FOR WASTE AND MISDIRECTION OF LIMITED RESOURCES IS OBVIOUS.

FINALLY, I WANT TO UPDATE THE COMMITTEE ON THE NON-FEDERAL AUDIT PROGRAM OF THE A.I.D. INSPECTOR GENERAL, A PROGRAM I FIRST REPORTED TO YOU LAST YEAR. THIS PROGRAM EMPLOYS PRIVATE ACCOUNTING FIRMS, OVERSEAS AFFILIATES OF U.S. BASED CPA FIRMS, TO MAKE AUDITS OF THE FINANCIAL OPERATION OF A.I.D. CONTRACTORS AND GRANTEES. WE ARE STEADLY EXPANDING THE NON-FEDERAL AUDIT OVERSIGHT OF AGENCY OPERATIONS. I MIGHT ADD, IT PLACES A FAIRLY HEAVY BURDEN ON OUR ALREADY LIMITED STAFF BECAUSE WE MUST OVERSEE THIS WORK VERY CLOSELY TO ENSURE COMPLIANCE BY THESE FOREIGN FIRMS WITH U.S. GENERAL ACCOUNTING OFFICE AUDIT STANDARDS. I BELIEVE OUR COMMITMENT TO THIS PROGRAM IS PROVING TO BE WORTH THE EFFORT AND THAT ITS CONTRIBUTION TO AGENCY ACCOUNTABILITY CAN ONLY GROW.

IN THE SIX MONTHS ENDING MARCH 31ST, 51 OF THESE REPORTS WERE ISSUED AROUND THE WORLD. ABOUT $2.2 MILLION IN RECOVERIES WERE RECOMMENDED IN THESE REPORTS. PARTICULARLY TROUBLING TO ME, AND INDICATIVE OF THE FINANCIAL MANAGEMENT AND ACCOUNTABILITY ENVIRONMENT IN WHICH A.I.D. OPERATES, WAS THE FACT THAT IN ABOUT HALF OF THESE AUDIT REPORTS THE ACCOUNTING FIRMS COULD NOT EXPRESS AN UNQUALIFIED OPINION BECAUSE THE AUDITEE'S FINANCIAL RECORDS AND SYSTEMS INTEGRITY DID NOT MEET ACCEPTABLE PROFESSIONAL ACCOUNTING STANDARDS. MATERIAL WEAKNESSES IN INTERNAL CONTROLS OR INSTANCES OF NON-COMPLIANCE WITH A.I.D. CONDITIONS OR REGULATIONS WERE ALSO COMMON. FIELD MISSIONS AND WASHINGTON BUREAUS ARE BEGINNING TO RECOGNIZE THE VALUE OF THESE SERVICES AND WE NOW FACE THE REAL POSSIBILITY OF HAVING TO LIMIT THE EXPANSION OF THE PROGRAM TO ENSURE THAT ITS OVERALL QUALITY MEETS THE GAO STANDARDS.

THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN. MR. DURNIL AND I WILL BE GLAD TO RESPOND TO ANY QUESTIONS.

## REDUCED FUNDING FOR HUMANITARIAN COMMITMENTS

Senator INOUYE. Thank you very much, General.

I would like to now call upon Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

As you know, last year we increased the budget for the Inspector General, and there were issues that were raised then that I would like to come back to, and then followup on some of the issues you have raised now.

Mr. BECKINGTON. Yes, ma'am.

Senator MIKULSKI. Under the Summit Agreement we have far less money and latitude to be able to fund our humanitarian commitments than before. Your recommendations on economies and efficiencies total close to $200 million, which is like crossing another North Slope, if you will.

Let me go to something that you raised last year to find out where we are, and I would also like to go to the issue of local currencies.

## EXCHANGE RATES

Last year I raised an issue of failure to take advantage of the most favorable legal-legal-exchange rate in foreign countries, and I believe it was your work that brought to our attention $40 million in currency exchange that we kind of lost in Central America. There were several other places around the world where, when you added it up, suddenly it was $50 million which we could have used to fight locusts or meet disaster and so on.

Could you tell us, I think it came out to about $41 million just in Central America, what has happened in terms of the taking advantage of the legal exchange rates? Do we continue to lose money in those currency exchanges? And what is the management at A.I.D. doing about it?

Mr. BECKINGTON. Senator, I think that the agency has corrected that problem. It turned up in late 1985 and throughout 1986 in a series of regular audit reports issued by my office. I reported on it, as you have recalled, at this hearing last year. The agency reacted very promptly to those problems, and I am unaware of any repetition of that particular problem anywhere in the agency's operations over the past 12 months.

I think the agency responded very effectively to what I thought at the time was a very serious problem, and I think what obviously the agency felt the same way, once the full scope of the problem became known to them.

Senator MIKULSKI. So you now feel that as we enter into currency exchanges, that we are getting the best deal for our money?

Mr. BECKINGTON. I believe we are, Senator. I don't think the problem has been solved forever, and we will keep an eye on it.

### CONTROL AND ACCOUNTABILITY OVER LOCAL CURRENCY

Senator MIKULSKI. Now I would like to go to the issues that you raised in your testimony about the accumulation of local currency, that there seems to be no real accountability on how much money is there and then what happens to it.

Could you elaborate on that? I know that there are a variety of circumstances in which local currency accumulates.

Are you saying we don't know how much we have, number one, and number two, that it is just accumulating and we are not using it there for humanitarian projects?

Mr. BECKINGTON. Well, I am saying something of that sort, yes, Senator, although the conditions I think that we see tend to vary from time to time. There are accountability problems with these amounts of local currencies.

The agency regards local currencies derived from our CIP programs and the sale of our PL–480 Title I commodities as host country owned currencies. I am not sure why this is. I have been unable to find out.

Senator MIKULSKI. But it is not a legal situation.

Mr. BECKINGTON. I have been unable to find a legal opinion that supports that conclusion.

Senator MIKULSKI. Perhaps I am naive. I was thinking of some of the situations that we have in Poland, which I am more familiar with, and I thought that when we sold, for example, PL–480 food, currency accumulated, that it was really our money which we couldn't take out of the country, and that we then could use for other good works in that country.

Mr. BECKINGTON. We do not take the money out of the country, to the best of my knowledge.

Senator MIKULSKI. But that it was our money.

Mr. BECKINGTON. No, ma'am.

Senator MIKULSKI. Meaning USA money.

Mr. BECKINGTON. A.I.D. considers these currencies to be host country owned. We are required to program them for mutually agreed upon purposes, developmental type purposes.

I think we are somewhat schizophrenic about local currency. We are concerned about accountability over something that we do not own, something that it is our position that we do not own.

Now, how are you accountable for something you do not own? The way we try to do it is by agreement, and we enter into agreements with these respective countries as to what we are going to do with these monies and how we are going to reach agreement on what we are going to do with them.

Now, we find problems repeatedly with accountability, and by that I mean that we are not receiving adequate and timely reports of the amounts of local currency accruing in these countries, usually in the central banks. We are not sure of the accuracy of the reporting that we receive when we do in fact receive it. We find problems in control over these, what I term control over these local currencies that seem to arise from an inability, a difficulty of our country agreeing with the host country as to what uses are going to be made and when that happens and the CIP program continues, the PL–480 program continues, obviously if we cannot reach reasonable and timely agreement on the use of these funds, they begin to pile up. At least, I think they begin to pile up.

We do not have really any access to the central bank of a sovereign country, and we are really quite entirely reliant upon the reporting we receive from them.

Senator MIKULSKI. And the host country thinks it is their money.

Mr. BECKINGTON. They do I guess maybe because we have said so. I am not entirely sure. I have a request at the moment to the General Counsel of the agency asking for the basis, the legal basis for this position that these local currencies are host country owned. I do not as yet have such an opinion.

### AID REQUIREMENTS IN EGYPT

Senator MIKULSKI. Well, first of all, when I hear that there are $300 million in an Egyptian account and knowing that there have been food riots in Egypt, knowing that there have been people living in cemeteries, knowing of the breakdown of the physical infrastructure, of the deterioration of the economy in a country for whom we are now an ally and where we place a substantial part of our foreign aid, when I hear that there is a third of a billion dollars accumulated, which is just kind of sitting around, I find that really very distressing, particularly when Egypt obviously has a need.

We have allegedly and supposedly good diplomatic relationships.

Do you think one way to get everybody off of the dime, so to speak, would be to say that we in our funding for this year substitute those funds for part of our foreign aid and view that as our share to the country?

Mr. BECKINGTON. I suppose that could be an option that could be considered, Senator, but this is a policy type matter that I probably should not express an opinion on.

Senator MIKULSKI. Well, able staff here says that countries are also not required to maintain the value of the local currency accounts, and that inflation can just erode them. So if we don't use it and use it wisely, we will spit it away just in skyrocketing inflation in some of these countries.

Mr. BECKINGTON. We do run that risk, and in a key example mentioned in my opening statement, we encountered the additional risk of devaluation, of deliberate devaluation of the currency in Kenya, which resulted in a loss of value of the local currency that had accumulated in that particular instance.

Senator MIKULSKI. If we just took the $300 million in Egypt, $132 million someplace else and $24 million, all of a sudden this could add up to half a billion dollars. If this committee had a half a billion dollars more we could spend, quote, unquote, it would be significant.

My question then to you, Mr. Inspector General, is how can we get a handle on this? What would you recommend? Or would you like to give further consideration?

Mr. BECKINGTON. I would indeed, going back to what I said a few minutes ago, Senator. I think the agency is now concerned about this matter. I think they have under way a careful look at how we have been handling local currency, what we have been doing with it, the problems associated with it.

I am doing the same thing from my perspective as Inspector General, and I expect to be making some recommendations to the administrator in the reasonably near future.

So I think it would be—I am really not ready to answer your question.

Senator MIKULSKI. You wanted to alert the Congress to this?

Mr. BECKINGTON. I mentioned this because it is an existing condition. I am aware of it because of our audit work. What the solution is or what steps should be taken to remedy and correct this condition I am really not ready to say or prepared to say. I do not know.

Senator MIKULSKI. Well, I saw some wonderful examples of where aid particularly from PL-480 was used in countries where we used those funds, for example, in central Peru, that was then used to build housing.

Mr. BECKINGTON. Yes.

Senator MIKULSKI. And instead of the shanty towns on the beaches, we saw, one, the people benefitted from the food, and second, taking that currency, we created essentially a work project in which housing was built, people were employed, and it was just one of our most successful programs. You saw the best of our country and the good will, and the direct aid was really important.

So, Mr. Chairman, I just think we ought to keep an eye on this waste because this is an enormous amount of money, and particularly in a country like Egypt that gets an enormous amount of our aid.

## INACTION ON FALTERING PROJECTS

My last question, if the Chairman will permit—I have many others, but this question on page—the issues that you raise on page 6 of getting rid of flops, do you have any recommendations to us in terms of what we should do in our funding, because it is not in the taxpayers' or the United States of America's interest to be funding programs that do not work.

Mr. BECKINGTON. Oh, on page 5, Senator, the trouble in——

Senator MIKULSKI. Yes.

Mr. BECKINGTON. Well, I think clearly the agency—and I am making some very specific recommendations to the agency—I think there is a certain bureaucratic lethargy built into some of these things. We don't like to see things fail, and we would like to be able to rescue them, correct them, improve them, and people do spend a fair amount of time looking at that aspect of a failing project, it seems to me, rather than making the sometimes difficult decisions in a timely way that will cut our losses, so to speak, in a project that for one or more of any number of reasons, including a sudden lack of support from the host government, a change of government, and thus a change of focus—we need I think as an agency and the management of our agency needs to be prepared and ready and able to make those decisions to eliminate a project, cut it in half, change its direction, change the funding, whatever needs to be done should be done up front, as early as can reasonably be done, and in the process, I think we will cut back on mismanagement, on funding projects that have relatively little chance of success, and save ourselves money in the process, and redirect some of our resources more effectively.

Senator MIKULSKI. So you think we would get attention and action if we took what you had identified as failed projects, then reduced their funding by that amount?

Mr. BECKINGTON. That would certainly be an attention getter, yes, ma'am. Whether I would recommend it or not, I am not sure. I think that other expressions of concern by this committee would also get a fair amount of attention.

Senator MIKULSKI. Well, I think the committee would have to discuss what techniques and approaches to use, but I just know that we have so little money to work with and the need around the world is so great, we have to make every dollar count, and bureaucratic inefficiency or lethargy just cannot be tolerated.

## BUDGET REQUEST IMPACT ON CONGRESSIONAL INITIATIVE

Mr. Chairman, if I could, Senator Kasten had a question, if I may.

What would be the impact on the program the subcommittee initiated last year to enhance your capabilities if we adopted the OMB budget for your function?

Mr. BECKINGTON. The program would come to an end, Senator.

Senator MIKULSKI. That is a crisp, no nonsense answer.

Mr. BECKINGTON. Well, that is the answer. It is that simple and that factual.

The funding requested for fiscal year 1989, as I said at the outset, will essentially leave us at the level of operations we have been maintaining in the past several years.

### SIGNIFICANCE OF THE IG FUNCTION

Senator INOUYE. I thank you very much, Senator Mikulski. What you and the Inspector General have just gone through is very important.

I should like to point out that this is the office that gives the whole foreign assistance program credibility as far as I am concerned, and yet, over the years it has been a frustrating exercise on my part as Chairman.

In 1986, for example, we knew and the Inspector General knew that with the resources available, all they could do was cover about 25 percent of the projects and programs, and we provided as a result, over and above what OMB had suggested, 47 positions.

Mr. BECKINGTON. Yes, sir.

Senator INOUYE. Which you have had difficulty in filling, not because you cannot find the personnel, but the White House says nix to you. And the matter of local currency, for example, we have been trying to get some legislative changes. I realize the issue of sovereignty involved, and these countries want to have control over the money because they are large sums, and they want to be able to make certain that the intrusion of that fund into the local economy will not damage the fragile balance that they claim they are maintaining.

However, at the same time, if that is the attitude, then we should be honest with ourselves and make this whole thing a grant program instead of reporting to you that we have $300 million in Egypt, if we very likely have no control over it.

We are still looking into some legislative change whereby we can have some handle on this, not just the statistics that they provide us.

But I want you to know, General, that I am with you, and this nonsense that not just this administration, but all other administrations have done, they just don't want someone over their shoulders because if it were not for your office, this committee would not have been aware, nor would the nation have been aware of some of the hanky panky being carried out.

So I want you to know that I for one am most grateful for the work you have done with the scarce resources you have in opening our eyes.

### IMPORTANCE OF IG OVERSEAS REGIONAL OFFICES

Well, this may interest you. Recently a survey was made, the so-called President's Overseas Staffing Review.

Mr. BECKINGTON. Yes.

Senator INOUYE. And during this review in 1986, every ambassador hosting a regional inspector general office, proposed that it be either relocated or its staff reduced.

I know why, but can you tell us why?

Mr. BECKINGTON. Senator, the reasons given for those recommendations are almost always two, and they are always the same two. The ambassadors feel that there is added cost associated with the maintenance of my regional offices overseas as distinguished from a concentration of the function in Washington, and in fact, the cost factor which we have gone into with extreme care, as you might imagine, tends to be a washout.

The second factor that has been relied upon more heavily in recent years, and I think understandably, is the security aspect. I think the department's basic view is that fewer regional offices overseas of whatever kind, of whatever department or agency, including the department, probably the better. It just means that there are fewer people whose safety we need to be concerned about, and so on.

As you know, my position has obviously always been in direct opposition to that. I feel that the regional office structure is absolutely necessary. It is used by every inspector general of the domestic agencies and departments of the Federal Government, and I think we have an even greater requirement for the regional structure because of the tremendous distances involved.

I would be unable, I think, to retain over any period of time a competent, professional, reasonably content audit and investigative staff operating out of Washington, D.C.

Senator INOUYE. I think the record should show that if it were not for the regional offices, a lot of the scandals that you have uncovered would not have been uncovered.

Mr. BECKINGTON. I think that is true, sir.

Senator INOUYE. And I am well aware, I have been in this business long enough to know that the request you are making is not necessarily the one that you feel is proper, and that it should be more. So I am not going to ask you what you think it should be, but you certainly would not reject an increase if we so decided, would you?

Mr. BECKINGTON. I would be quite willing to abide by the wisdom of this subcommittee.

Senator INOUYE. Reluctantly or otherwise?

Mr. BECKINGTON. Yes, sir.

Senator INOUYE. I know that the amount you are asking for would not even keep up the present level of overview that you have, so I think at the least we should do that.

We have many other questions, but I would like to submit them. These are on specific countries.

With that, I would like to express to you the gratitude of the subcommittee for the work done by you and the men and women under you. And we hope to provide you with necessary and sufficient funds to carry out the full intent of the law.

Mr. BECKINGTON. Thank you, Mr. Chairman.

## AMERICAN SCHOOLS AND HOSPITALS ABROAD

## STATEMENT OF HON. DAVID SANTOS

### PROGRAM CHANGES

Senator INOUYE. Our next witness is the Honorable David Santos, Director of ASHA.

Mr. SANTOS. Briefly, as introductory remarks, I would like to note that in fiscal year 1989 we will be beginning the thirtieth year of the American Schools and Hospitals Abroad Program, originally initiated as part of the Mutual Security Act of 1959.

Since that time there have been significant changes in the program, especially over the last 10 years, as the program has become increasingly geographically diversified and as we have assisted some 71 institutions that had not been assisted by the program during the period before 1978.

During this decade we have assisted many new institutions, that is, new to this program, not new in their existence, especially in areas of Africa, Latin America, the Caribbean and in Asia. The program has made significant strides in terms of geographic diversity. When it first started, it was largely concentrated in the eastern Mediterranean, partly as a result of and in response to communist action in Turkey and Greece and in that area in general.

We have had increasing numbers of applicants and grantees. This year I am pleased to say that we are requesting $30 million for the program, which is the highest request level that we have made.

I will be pleased to answer any questions you have, Mr. Chairman.

[The statement follows:]

# STATEMENT OF
# DAVID A. SANTOS
# DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD
# BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to appear before this Subcommittee on behalf of the Agency for International Development's Office of American Schools and Hospitals Abroad (ASHA).

The efforts and resources of thousands of U.S. citizens have built and sustained a significant number of private, non-profit schools and hospitals overseas which serve the citizens of foreign countries. In addition to educating and providing health services to millions of people, these institutions introduce to their host countries American advances and experiences in education and medicine.

The ability of the United States to achieve its foreign policy goals depends on the extent to which others share America's commitment to private initiative, free inquiry and innovative approaches to problem-solving. American-sponsored schools and hospitals overseas foster these characteristics. In addition, they have impressive self-help records, meeting most of their operating costs from tuition and fees, private contributions and the sale of services.

ASHA grants help selected institutions to build and equip laboratory, library, classroom, diagnostic, medical treatment and support facilities, and, in a few cases, to meet the costs of operating their programs. ASHA-assisted institutions train future leaders and professionals in a variety of disciplines essential to nation building and economic development. These include agriculture, economics, business and public administration, medicine, nursing, public health, education, engineering and the arts and sciences.

By sharing and adapting American ideas and practices, American-sponsored institutions educate a cadre of foreign citizens who can communicate, share values and work with Americans in business, government, the sciences and other mutually beneficial endeavors.

Institutions assisted by ASHA in the past five years are training over 200,000 students from more than 100 countries each year and are providing medical services to over 4 million persons annually. The number of beneficiaries is double that reported to this committee four years ago, reflecting both expansion of facilities and support of new recipients.

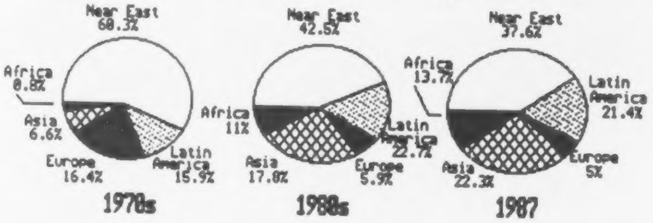
## TEN YEAR OVERVIEW

In the past ten years, (FYs 1978-1987), 106 institutions have received ASHA grants. Of these, 71, or 67 %, were first-time grant recipients. They are located primarily in Africa, Asia, Latin America and the Caribbean. These 71 institutions equal the number of institutions (70) assisted during the previous 19 years, i.e., from the inception of the program in 1959 through 1977.

Seventy-five percent (75%) or 79 of the 106 grant recipients received four or fewer grants during the ten year period.

With a greater number of institutions benefiting from ASHA assistance, there also has been a broadening in the geographic allocation of ASHA funds. This is illustrated in the charts below. We propose that this trend continue within the limits presented by each year's pool of applicants and the merits and needs of individual institutions.

**Changes in the Geographic Allocation of ASHA Funds**



The attached table shows grants by region, country and institution during the past ten years. Institutions receiving ASHA assistance for the first time during this period are denoted by an asterisk.

## FISCAL YEAR 1989 REQUEST

A.I.D. is requesting $30 million for the American Schools and Hospitals Abroad program for FY 1989. In our judgment, this amount will be sufficient to respond to the best grant proposals, to concentrate resources on institutions most capable of meeting program objectives, and to stimulate additional private fund-raising. Priority will be given to those institutions that best serve as study and demonstration centers for U.S. ideas and practices, have a good record of self-help and offer the greatest potential for developing human resources.

Attachment:
ASHA Grants by Region and Country, FYs 1978-1987

AMERICAN SCHOOLS AND HOSPITALS ABROAD
GRANTS BY REGION, COUNTRY AND INSTITUTION, FYs 1978-1987
(In Thousands of Dollars)

(Asterisks indicate first-time recipients during the ten-year period)

AFRICA

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Botswana | - | 1,195 | - | 900 | - | 600 | 550 | 425 | 800 | - | 4,470 |
| * Kanye Hospital, Kanye | - | 1,000 | - | 900 | - | 600 | - | - | 800 | - | 3,300 |
| * Maru a Pula School, Gaborone | - | 195 | - | - | - | - | 550 | 425 | - | - | 1,170 |
| Cameroon | - | - | - | - | - | - | - | 325 | - | 325 | 650 |
| * Central Hospital D'Enongal, Enongal | - | - | - | - | - | - | - | 325 | - | 325 | 650 |
| Kenya | - | - | - | - | - | - | - | - | - | 500 | 500 |
| * Tenwek Hospital, Bomet | - | - | - | - | - | - | - | - | - | 500 | 500 |
| Liberia | - | 1,200 | 1,500 | 750 | - | 900 | 650 | 600 | 700 | 720 | 7,020 |
| * Cuttington Univ. College, Suacoco | - | 1,200 | 1,500 | 750 | - | 900 | 650 | 600 | 700 | 720 | 7,020 |
| Malawi | - | 550 | - | 750 | 400 | - | - | 700 | 550 | - | 2,950 |
| * Malamulo Hospital, Makwasa | - | 550 | - | 750 | 400 | - | - | 700 | 550 | - | 2,950 |
| Rwanda | - | - | 750 | - | - | 575 | - | - | - | - | 1,325 |
| * Muyonero Hospital, Kibuye | - | - | 750 | - | - | 575 | - | - | - | - | 1,325 |
| Sudan | - | - | - | - | - | - | 425 | - | - | - | 425 |
| * Loyola Secondary School, Wau | - | - | - | - | - | - | 425 | - | - | - | 425 |
| Tanzania | - | - | 275 | - | - | - | - | - | - | - | 275 |
| * Heri Hospital, Kigoma | - | - | 275 | - | - | - | - | - | - | - | 275 |
| Zaire | 200 | 150 | 170 | 130 | - | 550 | 715 | 550 | 850 | 800 | 4,115 |
| Good Shepherd Hospital, Kananga | 200 | 150 | 170 | 130 | - | 550 | 715 | 550 | 850 | 800 | 4,115 |

AFRICA (continued)

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Zambia | - | - | - | 300 | - | - | 600 | 690 | - | 200 | 1,790 |
| * Macha Hospital, Choma | - | - | - | - | - | - | - | - | - | 200 | 200 |
| * Mwami Adventist Hospital, Chipata | - | - | - | 300 | - | - | 600 | 690 | - | - | 1,590 |
| Zimbabwe | - | - | - | - | - | - | - | - | - | 1,000 | 1,000 |
| * Simon Mazorodze Inst. for Biomedical Educational Research | - | - | - | - | - | - | - | - | - | 1,000 | 1,000 |
| SUBTOTAL | 200 | 3,095 | 2,695 | 2,830 | 400 | 2,625 | 2,940 | 3,290 | 2,900 | 3,545 | 24,520 |

ASIA

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | - | - | - | - | - | - | - | - | - | 3,000 | 3,000 |
| * American Medical Center, Shanghai | - | - | - | - | - | - | - | - | - | 1,000 | 1,000 |
| * Center for American Studies & Life Sciences, Shanghai | - | - | - | - | - | - | - | - | - | 2,000 | 2,000 |
| Federated States of Micronesia | - | - | - | - | - | - | - | - | 600 | - | 600 |
| * Xavier High School, Truk Island | - | - | - | - | - | - | - | - | 600 | - | 600 |
| India | - | 500 | - | - | 500 | 500 | 900 | 1,410 | 950 | 700 | 5,460 |
| * Kodaikanal School, Tamil Nadu | - | - | - | - | - | - | - | 300 | - | - | 300 |
| * Ludhiana Christian Med. College and Hospital | - | 500 | - | - | - | 500 | 500 | 500 | 500 | - | 2,500 |
| * Vellore Christian Med. College and Hospital | - | - | - | - | 500 | - | 400 | 500 | 450 | 700 | 2,550 |
| * Woodstock Intern'l School, Musoorie | - | - | - | - | - | - | - | 110 | - | - | 110 |
| Indonesia | 300 | 650 | - | - | - | - | - | - | - | - | 950 |
| * Bandung Adventist Hosp., Bandung | 300 | - | - | - | - | - | - | - | - | - | 300 |
| * Satya Wacana Christian University, Salatiga | - | 650 | - | - | - | - | - | - | - | - | 650 |

ASIA (continued)

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Korea | 2,456 | 833 | 2,425 | 1,250 | 1,150 | 300 | 800 | 1,300 | 400 | - | 10,914 |
| * Chung Ang University, Seoul | - | - | - | - | - | - | - | - | 400 | - | 400 |
| * Kwangju Christian Hospital, Kwangju | - | - | - | - | - | - | 250 | - | - | - | 250 |
| Presbyterian Medical Center, Jeonju | 300 | 833 | - | 450 | 200 | 200 | - | 400 | - | - | 2,383 |
| Sogang University, Seoul | 1,156 | - | 650 | 800 | 950 | - | 550 | - | - | - | 4,106 |
| * Soong Sil University, Seoul | - | - | 1,300 | - | - | - | - | 900 | - | - | 2,200 |
| * St. Joseph's Girls High School, Cholla, Nam Do | - | - | - | - | - | 100 | - | - | - | - | 100 |
| Induk High School and Institute of Design, Seoul | - | - | 475 | - | - | - | - | - | - | - | 475 |
| * Yonsei University, Seoul | 1,000 | - | - | - | - | - | - | - | - | - | 1,000 |
| Pakistan | - | - | - | - | - | - | - | - | 500 | - | 500 |
| * Nancy Fulwood Hospital, Sahiwal | - | - | - | - | - | - | - | - | 500 | - | 500 |
| Philippines | - | 1,200 | 2,450 | - | 1,190 | 1,300 | 1,200 | 1,100 | 650 | 2,050 | 11,140 |
| * Angeles University, Angeles City | - | - | - | - | - | - | - | - | 650 | - | 650 |
| * Ateneo de Davao University, Davao City | - | - | - | - | 1,190 | - | - | 250 | - | - | 1,440 |
| * Ateneo de Manila University, Quezon City | - | - | - | - | - | - | 1,200 | - | - | - | 1,200 |
| * Ateneo de Zamboanga, Zamboanga City | - | - | - | - | - | - | - | 850 | - | - | 850 |
| * De La Salle University, Manila | - | 1,200 | - | - | - | 800 | - | - | - | - | 2,000 |
| * La Salle College, Bacolod | - | - | - | - | - | - | - | - | - | 250 | 250 |
| * Notre Dame of Marbel College, Korondal | - | - | - | - | - | - | - | - | - | 950 | 950 |
| * Notre Dame University, Cotobato City | - | - | - | - | - | - | - | - | - | 850 | 850 |
| Silliman University, Dumaguete City | - | - | - | - | - | 500 | - | - | - | - | 500 |
| * Trinity College, Manila | - | - | 900 | - | - | - | - | - | - | - | 900 |
| * Xavier University, Cagayan de Oro City | - | - | 1,550 | - | - | - | - | - | - | - | 1,550 |
| Sri Lanka | - | - | - | - | - | - | - | - | - | 130 | 130 |
| * Eastern Tech. Institute, Batticaloa | - | - | - | - | - | - | - | - | - | 130 | 130 |
| Thailand | 2,230 | - | - | 1,075 | 960 | 500 | 1,225 | 700 | 850 | 1,050 | 8,590 |
| Bangkok Adventist Hospital, Bangkok | 250 | - | - | - | - | - | 725 | 700 | - | 300 | 1,975 |
| * Lampang College of Commerce & Tech. | - | - | - | - | - | - | - | - | 850 | 750 | 1,600 |
| * Payap University, Chiang Mai | 1,980 | - | - | 1,075 | 960 | 500 | 500 | - | - | - | 5,015 |
| SUBTOTAL | 4,986 | 3,183 | 4,875 | 2,325 | 3,800 | 2,600 | 4,125 | 4,510 | 3,950 | 6,930 | 41,284 |

EUROPE

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| England | 25 | 375 | - | - | - | - | - | - | - | - | 400 |
| New England College, Arundel | 25 | 375 | - | - | - | - | - | - | - | - | 400 |
| France | - | 140 | - | - | - | - | - | - | - | - | 140 |
| American Library in Paris | - | 140 | - | - | - | - | - | - | - | - | 140 |
| Greece | 1,140 | 1,235 | 905 | 975 | 725 | 695 | 1,380 | 1,075 | 700 | 800 | 9,630 |
| American College of Greece, Athens | 285 | 300 | 360 | - | 300 | - | 380 | - | 500 | - | 2,125 |
| American Farm School, Thessaloniki | 380 | 350 | 270 | 550 | 425 | 295 | 350 | 475 | - | - | 3,095 |
| Anatolia College, Thessaloniki | 475 | 300 | - | 425 | - | 200 | 375 | 600 | 200 | - | 2,575 |
| Athens College, Athens | - | 285 | 275 | - | - | 200 | 275 | - | - | 350 | 1,385 |
| * Blegen and Gennadius Libraries, Athens | - | - | - | - | - | - | - | - | - | 450 | 450 |
| Italy | 365 | 375 | 380 | 250 | 225 | 200 | 325 | 350 | 325 | 325 | 3,120 |
| Center for Advanced International Studies, Bologna | 365 | 375 | 380 | 250 | 225 | 200 | 325 | 350 | 325 | 325 | 3,120 |
| Poland | 785 | - | 750 | - | 300 | 150 | 750 | 250 | 325 | 400 | 3,710 |
| American Children's Hospital, Krakow | 785 | - | 750 | - | 300 | 150 | 750 | 250 | 325 | 400 | 3,710 |
| SUBTOTAL | 2,315 | 2,125 | 2,035 | 1,225 | 1,250 | 1,045 | 2,455 | 1,675 | 1,350 | 1,525 | 17,000 |

LATIN AMERICA/CARIBBEAN

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Brazil | - | 400 | 450 | 190 | 200 | - | 150 | - | 192 | 250 | 1,832 |
| * Esperanca, Santarem | - | 400 | 450 | 190 | 200 | - | 150 | - | 192 | 250 | 1,832 |
| Ecuador | 590 | - | 825 | 300 | - | - | - | - | - | 500 | 2,215 |
| * Academy Cotopaxi, Quito | - | - | - | - | - | - | - | - | - | 500 | 500 |
| Working Boys Center, Quito | 590 | - | 825 | 300 | - | - | - | - | - | - | 1,715 |

LATIN AMERICA/CARIBBEAN (cont'd)

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Guatemala | 335 | 900 | 1,075 | 1,200 | 950 | 875 | 1,825 | 850 | 2,500 | 2,200 | 12,710 |
| • Francisco Marroquin University, Guatemala | - | - | - | - | - | - | 1,000 | - | 1,900 | 1,400 | 4,300 |
| Hospital de la Familia, Nuevo Progreso | 335 | 225 | 225 | - | - | - | 125 | - | - | 200 | 1,110 |
| University of the Valley, Guatemala City | - | 675 | 850 | 1,200 | 950 | 875 | 700 | 850 | 600 | 600 | 7,300 |
| Haiti | - | 235 | - | 400 | 150 | 200 | - | 675 | 1,385 | 1,300 | 4,345 |
| • American University of Les Cayes | - | - | - | - | - | - | - | - | 700 | 900 | 1,600 |
| • Bonoc Technical Institute, Bonoc | - | - | - | - | - | 200 | - | 375 | 330 | 200 | 1,105 |
| • Hospital St. Croix, Leogane | - | - | - | - | 150 | - | - | 300 | 355 | 200 | 1,005 |
| • Haiti Adventist Hospital, Port au Prince | - | 235 | - | 400 | - | - | - | - | - | - | 635 |
| Honduras | 150 | 200 | 600 | 1,300 | 1,500 | 1,655 | 1,700 | 2,500 | 1,643 | 1,000 | 12,248 |
| • Escuela Internacional Sampedrana, San Pedro Sula | - | - | - | - | - | 200 | - | 800 | 200 | - | 1,200 |
| Panamerican Agricultural School, Zamorano | 150 | 200 | 600 | 1,300 | 1,500 | 1,455 | 1,700 | 1,700 | 1,443 | 1,000 | 11,048 |
| Jamaica | - | - | - | - | - | - | 625 | - | 225 | - | 850 |
| • St. George's College, Kingston | - | - | - | - | - | - | 625 | - | 225 | - | 850 |
| Mexico | 2,249 | - | 850 | - | 700 | - | 1,500 | - | 1,000 | 700 | 6,999 |
| • American British Cowdray Hospital, Mexico City | - | - | - | - | - | - | 1,000 | - | 1,000 | - | 2,000 |
| University of the Americas, Mexico City | 2,249 | - | 850 | - | 700 | - | 500 | - | - | 700 | 4,999 |
| SUBTOTAL | 3,324 | 1,735 | 3,800 | 3,390 | 3,500 | 2,730 | 5,800 | 4,025 | 6,945 | 5,950 | 41,199 |

NEAR EAST

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Egypt | 250 | 500 | 500 | 400 | 800 | 900 | 1,000 | 2,250 | 1,750 | 650 | 9,000 |
| American University in Cairo | 250 | 500 | 500 | 400 | 800 | 900 | 1,000 | 1,850 | 1,750 | 650 | 8,600 |
| * College of the Holy Family, Cairo | - | - | - | - | - | - | - | 400 | - | - | 400 |
| Israel | 5,425 | 3,750 | 1,145 | 2,000 | 2,950 | 3,100 | 4,100 | 4,650 | 5,450 | 5,150 | 40,720 |
| * American College of Belz, Jerusalem | - | - | - | - | - | - | - | 500 | - | - | 500 |
| Beth Rivka Comprehensive School, Kfar Chabad | - | - | - | - | - | 300 | 450 | - | - | - | 750 |
| Beth Yaacov Avat, Ashdod | - | - | - | - | - | - | - | - | - | 100 | 100 |
| * Boys Town, Jerusalem | - | - | - | - | 800 | 250 | - | 300 | - | 700 | 2,050 |
| * Children's Town, Jerusalem | - | - | - | - | - | - | - | - | 500 | - | 500 |
| * Emunah Women of American Community College, Jerusalem | - | - | - | - | - | 450 | - | 200 | - | - | 650 |
| Feinberg Grad. School of the Weizmann Institute of Science, Rehovot | 1,600 | 1,600 | 1,500 | 1,000 | 1,000 | 750 | 1,200 | 500 | 750 | 1,000 | 10,900 |
| Gan Yavne Youth Village, Gan Yavne | 975 | - | - | - | - | - | - | 150 | - | - | 1,125 |
| Hadassah Medical Center, Jerusalem | 1,350 | 1,000 | 1,200 | 1,000 | 1,000 | 850 | 1,500 | 1,500 | 1,500 | 1,650 | 12;550 |
| * Harry S. Truman Research Inst. for the Advancement of Peace, Jerusalem | - | - | - | - | - | - | - | - | 150 | - | 150 |
| * Jerusalem College of Technology | - | - | - | - | - | - | 250 | - | - | - | 250 |
| * Kfar Silver, Ashkelon | - | - | - | - | - | - | 200 | - | - | - | 200 |
| Laniado Hospital, Netanya | - | - | - | - | - | - | - | 500 | - | - | 500 |
| * Machaniam High School, Kiryat Gat | - | - | - | - | - | - | - | - | 200 | 200 | 400 |
| * Mother and Baby Hospital, Jerusalem | - | - | - | - | - | - | - | - | 1,250 | - | 1,250 |
| * Music Foundation, Jerusalem | - | - | - | - | - | - | - | - | 200 | - | 200 |
| * Ohr Somayach School, Jerusalem | - | 1,150 | - | - | - | - | - | 1,000 | - | 1,000 | 3,150 |
| * Sha'Alvim Teacher's College, Sha'Alvim | - | - | - | - | - | - | - | - | 400 | - | 400 |
| Shaare Zedek Hospital, Jerusalem | 1,000 | - | 800 | - | - | 500 | 500 | - | 500 | 500 | 3,800 |
| Or Hachayim Girls College, Bnei Brac | - | - | 645 | - | 150 | - | - | - | - | - | 795 |
| Beth Zeiroth Mizrachi Vocational High School, Jerusalem | 500 | - | - | - | - | - | - | - | - | - | 500 |
| Iran | 450 | - | - | - | - | - | - | - | - | - | 450 |
| Damavand College, Tehran | 450 | - | - | - | - | - | - | - | - | - | 450 |
| Jordan | - | - | - | - | 200 | - | 400 | 250 | - | - | 850 |
| * American Center for Oriental Research, Amman | - | - | - | - | 200 | - | 400 | 250 | - | - | 850 |

NEAR EAST (continued)

| COUNTRY AND INSTITUTION | FY 1978 | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | FY 1987 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lebanon | 4,500 | 4,678 | 4,000 | 4,375 | 4,000 | 4,250 | 5,000 | 5,350 | 6,200 | 6,000 | 48,353 |
| American University of Beirut | 4,500 | 4,500 | 4,000 | 3,500 | 4,000 | 4,000 | 5,000 | 5,000 | 6,000 | 6,000 | 46,500 |
| * Beirut University College | - | - | - | 375 | - | - | - | 350 | 200 | - | 925 |
| International College of Beirut | - | 178 | - | 500 | - | 250 | - | - | - | - | 928 |
| Turkey | 360 | 400 | 1,150 | 1,205 | 750 | 550 | 680 | 650 | 1,025 | 1,350 | 8,120 |
| Admiral Bristol Hospital, Istanbul | 360 | 400 | 850 | 730 | 750 | 550 | 400 | 650 | 725 | 450 | 6,065 |
| * American Collegiate Institute, Izmir | - | - | - | - | - | - | - | - | 300 | - | 300 |
| * American School of Languages and Art, Istanbul | - | - | - | - | - | - | - | - | - | 400 | 400 |
| Robert College, Istanbul | - | - | 300 | 275 | - | - | 280 | - | - | 500 | 1,355 |
| West Bank | - | 1,500 | - | 750 | - | - | 1,000 | - | - | - | 3,250 |
| * Bethlehem University, Bethlehem | - | - | - | - | - | - | 1,000 | - | - | - | 1,000 |
| * Mount of David Crippled Children's Hospital, Bethlehem | - | 1,500 | - | 750 | - | - | - | - | - | - | 2,250 |
| SUBTOTAL | 10,985 | 10,828 | 9,795 | 8,730 | 8,700 | 8,800 | 12,180 | 13,150 | 14,425 | 13,150 | 110,743 |
| WORLDWIDE | | | | | | | | | | | |
| Worldwide | 2,000 | 3,034 | 1,800 | 1,500 | 2,350 | 2,200 | 2,500 | 3,350 | 3,925 | 3,850 | 26,509 |
| Project HOPE Schools of Hlth. Sciens. | 2,000 | 2,000 | 1,800 | 1,500 | 1,600 | 1,500 | 1,500 | 1,500 | 2,000 | 1,550 | 16,950 |
| * Project ORBIS | - | 1,034 | - | - | 750 | 700 | 1,000 | 1,850 | 1,925 | 2,300 | 9,559 |
| Program Evaluation | - | - | - | - | - | - | - | - | - | 50 | 50 |
| SUBTOTAL | 2,000 | 3,034 | 1,800 | 1,500 | 2,350 | 2,200 | 2,500 | 3,350 | 3,925 | 3,850 | 26,509 |
| TOTALS | 23,810 | 24,000 | 25,000 | 20,000 | 20,000 | 20,000 | 30,000 | 30,000 | 33,495 | 35,000 | 261,305 |

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## ASSISTANCE TO THE HANDICAPPED OR MENTALLY RETARDED

Senator INOUYE. I would like to ask a few questions on specific programs.

First, on the so-called Jerusalem Elwyn, in reading the reports and memos related to this organization, I get the impression that as a matter of policy ASHA has decided not to recognize organizations that provide assistance to handicapped or the mentally retarded as suitable recipients of support, is that correct?

Mr. SANTOS. Yes, Mr. Chairman. Such persons certainly can benefit from ASHA assisted institutions which meet the legislative mandate and criteria, specifically, a hospital center for medical education and research, which is permitted under Section 214(b) of the Foreign Assistance Act, and many of them do benefit the handicapped, but we do not believe that the legislative mandate permits us to have programs specifically for the mentally and physically handicapped.

Senator INOUYE. So you do not believe the law provides you the authority to assist these organizations?

Mr. SANTOS. That is essentially correct, Mr. Chairman.

Senator INOUYE. This was brought to my attention, Section 214, ASHA, "the President is authorized to furnish assistance on such terms and conditions as he may specify, to schools and libraries outside the United States founded or sponsored by U.S. citizens and serving as study and demonstration centers for ideas and practices of the United States."

On that on such terms an conditions as he may specify, would that not be all inclusive?

Mr. SANTOS. I do not think that it is all inclusive. If you are talking about schools as well as hospital centers, the history of the program from the late 1950's, when it was established, and even before that when certain funds were provided for institutions, clearly intended to provide assistance for institutions at the secondary and higher level of education. It was meant to be a program that reached people who could be trained to go forward and be leaders in their respective communities.

Obviously we think that assistance to help physically and mentally handicapped people is very worthwhile as a humanitarian effort, but we do not believe that, looking at the history and intent of this program, it was meant to function as a humanitarian program.

Senator INOUYE. I do not want to go any further, but I somehow gather that the A.I.D. administrator has another interpretation. So it might be well, if you got together with Mr. Woods.

## PROJECTS IN EAST AND WEST JERUSALEM

What is your policy regarding funding projects in West Jerusalem as contrasted from East Jerusalem?

Mr. SANTOS. I do not think we have a policy of West versus East Jerusalem. We have never funded a project, to my knowledge, in East Jerusalem, so I do not think it has ever come up.

The State Department's policy, as I do recall, their policy is that we should not be funding projects over what used to be termed the Green Line. This issue has not come up in recent years because, to my knowledge, we have not had an application on behalf of an institution in occupied territories that are part of an Israeli project.

We have funded projects on the West Bank, both the Mount of David Crippled Children's Hospital and the Bethlehem University.

## AMERICAN UNIVERSITY OF CAIRO

Senator INOUYE. What is the present level of actual funding to the American University in Cairo?

Mr. SANTOS. It has fluctuated in recent years. Last fiscal year it was $650,000, and in several fiscal years before that it was substantially larger because we were funding a major capital project.

Over the past 10 years they have received $8.6 million. As I said, it was $650,000 last year, $1,750,000 in fiscal year 1986 and $1,850,000 in 1985, $1 million in fiscal year 1984, and $900,000 in fiscal year 1983. We can go back further if you wish.

But it has fluctuated, as most of our grants to various institutions fluctuate over the years. As I said, the high levels in 1985 and 1986 were specifically to help fund a major capital project, namely, a new dormitory for the university.

Senator INOUYE. In monitoring the AUC scholarship and other assistance programs for students, are you satisfied that American University in Cairo is drawing its student body from all levels of society in Egypt such as from among the urban poor?

Mr. SANTOS. Not too many people from the urban poor are in a position to take advantage of higher education. I do know that the American University in Cairo does have programs to provide financial assistance and scholarships to those who are financially needy, but I also have heard criticism that the institution is oriented towards the more well-to-do. I have had candid discussions with Richard Pederson, who is the President of the University. At least one objective of the large fundraising drive that that institution has had is to strengthen its scholarship program.

So I would hope that they would be expanding assistance to people who have shown capability but do not have the financial means to attend AUC.

## FUDAN FOUNDATION

Senator INOUYE. In our committee report, we singled out, among other things, the Fudan Foundation's proposal for capital improvement, and we called upon you to give this matter your favorable consideration.

Are we prepared to provide monies for the Fudan building program? This is the so-called Thomas H. Morgan Science Center.

Mr. SANTOS. We have provided some assistance for this in fiscal year 1987. We are still in the process of looking at all the proposals within the agency for 1988. So I cannot comment on the 1988 program at this point.

Senator INOUYE. Why do you not wish to comment?

Mr. SANTOS. We have not made final decisions.

Senator INOUYE. Can you tell us if it is on the list or not on the list?

Mr. SANTOS. It is an applicant and is on the list being considered.

Senator INOUYE. You have not made any decision whatsoever?

Mr. SANTOS. The only decision we have made so far was the earlier assistance that we provided for Project Orbis and a small amount of assistance for a construction project at a school in Honduras. Other than that, we have not obligated any funds or concluded exactly how these funds should be spent.

### ISRAELI CHILDREN'S HOSPITAL

Senator INOUYE. And in the 1988 report we also singled out the Israeli Children's Hospital.

Has any progress been made toward the creation of this hospital in Israel?

Mr. SANTOS. The people who are sponsoring that project are reorganizing themselves. We met with them in December. They are not an applicant for fiscal year 1988. I think they initially intended to apply and submitted information, but they have restructured themselves and we are waiting to see what the result is of that restructuring and whether or not they will apply in 1989.

### FISCAL YEAR 1988 GRANT DECISIONS

Senator INOUYE. When will your decisions be made for the funding?

Mr. SANTOS. Well——

Senator INOUYE. Not just for this, but for all——

Mr. SANTOS. We hope that it will be in the very near future. We are admittedly somewhat behind where we usually are at this time of the year.

Senator INOUYE. By the end of June?

Mr. SANTOS. Certainly by the end of June. We are going to be in quite a squeeze if we do not.

Senator INOUYE. I know that Senator D'Amato and Senator DeConcini have several questions they would like to submit. I have a few others here, if I may, I would like to submit to you for your considerations.

I thank you very much, sir.

Mr. SANTOS. Thank you, Mr. Chairman.

Senator INOUYE. May we have a short recess. There is a vote upstairs.

[A brief recess was taken.]

## OFFICE OF HOUSING AND URBAN PROGRAMS

### STATEMENT OF HON. PETER KIMM

### BUDGET REQUEST

Senator INOUYE. Our next witness is the Honorable Peter Kimm, Director of the Office of Housing and Urban Programs.

Mr. KIMM. Thank you, Mr. Chairman.

I have a prepared statement which I would like to summarize briefly.

The fiscal year 1989 budget request includes a proposal for $100 million in new housing guarantee authority. We will authorize an equal amount, $100 million worth of loans, to be made by private lenders to finance shelter and urban services for low income families in the developing world.

This program currently totals a little over $2 billion, $100 million is obviously a small part of the total foreign assistance program, but we think that this has been not only a long and continuing problem but quite a successful one. The world's shelter problem is enormous, but we believe it is manageable if the developing countries follow the right policies. While every country is different, the basic policy principles from our experience include heavy reliance on the people themselves and on the private sector to produce housing, with the role of government being to provide the necessary land and infrastructure, and perhaps more importantly, to create the policy climate and the regulatory climate that permits the people to go ahead and construct the housing.

I know that during my tenure with these responsibilities, which is now more than 20 years, for every house that was built by a government agency, at least several dozen houses were built by the people themselves. That is how the low income people of the world have gotten housed, and that is the system that we really are trying to reinforce in each of the places where we work.

We have found that our activities are most successful when we are discussing with the government overall policies, institutional framework, and the system by which shelter is produced in the country. It is important that we understand one another at this level at the time that loans are made. These projects and programs have been more successful in the long run than A.I.D. projects which focus on individual sites.

Nevertheless, we require and insist that for $10 million worth of money, $10 million worth of urban services are produced by the end of the project that we can go and look at and can identify.

There are at the present time several potentially important studies on the overall urbanization process in the developing world. Some of them are being done outside of government. There will be a symposium at

Michigan State University this month in which a series of policy papers will be presented which are intended to officer advice and guidance on how A.I.D. might best be run in the 1990's.

A.I.D. is also preparing a report on the implications of urbanization for the developing world and for donors for the House Appropriations Committee. That report is due on September 30.

We expect to issue an interim report around June 1, and we would like to share that interim report with this committee for whatever reactions it might have on the subject.

In fact, the data on the urbanization process is somewhat startling. By the year 2000, which is just about 12 years from now, about half of the people in the developing world will live in cities and half in the countryside. This represents quite a dramatic shift over the last 30 to 40 years. Some of the cities will grow to sizes that stagger the imagination. Mexico and Sao Paolo will approach 30 million people. There will be at least a half a dozen cities in the developing world that approach 20 million people. Most of these cities were quite small not too long ago.

I lived in Mexico City in 1961–1962. At that time it had a population of 7 million people. I was back there two years ago or 18 months ago at which time it had a population of 17 million people, and projections are that it will grow to 27 million people by the year 2000.

The impact of that growth on the developing world is increasingly important. The exact same process that is taking place in the big cities is also taking place in small towns. Small towns that were 10,000 people are becoming 20,000 and 30,000 and 40,000 in very short periods of time.

## RURAL-URBAN MIGRATION

Senator INOUYE. May I interrupt at this juncture?

I would gather that most of the people moving out from the rural areas to the urban areas are the rural poor, not the rural wealthy.

Mr. KIMM. Yes, sir.

Senator INOUYE. Thereby compounding the problems of urban area congestion and such.

Are we doing anything to slow down this process or to provide encouragement that these rural poor remain in the rural areas?

Mr. KIMM. I think much of the A.I.D. program in the last two decades, and much of the development emphasis in the developing countries has been, and correctly so, long run development. But I think that in many parts of the world, the rural areas are not able to absorb additional increases in population. That is, rural incomes are so low that if the increases in population that are taking place were fully absorbed in the rural area, you would in fact condemn everyone who was there to poverty. Even with the optimum development of rural areas, you will still have some significant flow to urban areas.

Also, at the present time, more than half of the population, in fact about 60 percent of it, comes from the increases in population of the people who already live in the city. I think that your emphasis is correct, that the countryside should be made as attractive as possible, but the spectre of the substantial population increases in the cities is going to be with us one way or another. Our impression is that at the moment the developing countries are not ready for it. They do not have a strategy or institutions in place, and I anticipate that in the 1990's urbanization will be a more important matter on the development agenda than it has been in the 1970's and 1980's.

I think that last year when I testified, there were a significant number of questions about a proposed program in Chile. Following my testimony, the Congress authorized a $5 million program there. We are proceeding with that program. We have signed an agreement with private cooperatives in the country. The government's role has been limited exclusively to the exchange of dollars into local currency through a swap agreement with the central bank. We believe that the program is proceeding, as we anticipated it would in the testimony a year ago.

And with that, I would be happy to answer any questions.

[The statement follows:]

## STATEMENT OF
## PETER M. KIMM, DIRECTOR
## OFFICE OF HOUSING AND URBAN PROGRAMS
## BUREAU FOR PRIVATE ENTERPRISE
## AGENCY FOR INTERNATIONAL DEVELOPMENT

I am here today to discuss the Administration's request for $100 million in new Housing Guaranty (HG) authority in FY 89.

### Housing Guaranty Program

The Administration's FY 1989 budget includes a $100 million Housing Guaranty Program in recognition that shelter and urban problems are increasingly important in the developing world and that the HG Program is an effective tool available to A.I.D. to address such problems. The proposed Housing Guaranty Program will finance new housing program initiatives for the urban poor in about eight countries.

Under the dual pressures of rapid population growth and historically unprecedented rates of urbanization, developing countries are undergoing profound changes in their social and economic structures. By the year 2000, urban populations will exceed those in their rural areas, and more than half of the developing nation's poor will be living in cities. One of the most dramatic outcomes will be the continued growth of "mega-cities,"; by then at least a half dozen LDC cities will exceed 15 million people. Less dramatic, but equally important, is the parallel extraordinary growth being experienced by smaller towns and cities in the developing world.

Although urbanization in developing nations clearly creates problems, cities are the locus of off-farm employment opportunities and the centers in which most of the growth and restructuring of the economy must occur. In most LDC countries, cities already generate half of the Gross Domestic Product, a proportion that is predicted to rise over the next decade. The opportunities and problems of urbanization are an immediate concern of the highest priority. The efficiency with which urban areas are managed will be one of the key factors affecting economic development in the 1990's.

The Office of Housing and Urban Programs operates with the conviction that acceptable, if minimal, shelter for all can be produced with available resources if the right policies are pursued. The key is to rely on individual initiative, market forces, and the private sector to produce the housing while the essential role of the government is to establish the policy framework and to provide infrastructure and services to facilitate this, i.e., to do those things that people cannot do for themselves. Government can thus support the natural processes that flow from individual initiative, especially in what has come to be known as the "informal" sector. Despite many obvious problems, this process has accounted for the vast majority of housing for low-income families in developing countries.

Attention to the needs of lower income people, decentralization of decision making, reliance on the private sector, affordability, and cost recovery, are the elements of A.I.D.'s policy agenda with LDC officials. This dialogue has been most effective when combined with loans for a significant number of eligible activities. We expect to increase the percentage of so-called "sector loans".

In addition to its role as a leading bilateral lender in the shelter sector through the HG Program, the Office commits resources to address the central issues of urbanization. This includes programs of applied research, through which the Office is working with host country officials to develop realistic approaches needed by LDCs to plan and manage effective urban policies and capital investment strategies in urban areas, with particular emphasis placed on identifying strategies for designing and implementing low income, urban programs. This activity is focused on four key areas: employment, municipal management, land tenure, and urban services.

The Office's training efforts focus on high priority policy and programmatic issues, which support ongoing or planned capital and technical assistance efforts in shelter and urban development. Training is conducted in the regional offices and in the United States. It also provides an opportunity for collaborative work with other development agencies, including the World Bank and the United Nations Center for Human Settlements.

The last House Appropriation Committee Report requested that A.I.D. prepare a report on Urbanization in the Developing Countries. The Office of Housing and Urban Programs has the lead in preparing this report, working with other offices and bureaus within the Agency which either now have, or could have in the future, urban programming content. An interim report, which identifies the principal areas within which A.I.D. will concentrate its study efforts will be submitted to the H.A.C. this month. The final study is due to be submitted by September 30, 1988.

A.I.D. welcomes this opportunity to undertake a serious review of the rapidly emerging problems and opportunities of urbanization in the developing countries. It comes at a time when the Agency is conducting a broad-based review of the role of U.S. economic development assistance within a rapidly changing global context. We believe the time has come to review A.I.D. priority and programming initiatives in the urban areas of the developing countries. The interim report begins to delineate A.I.D.'s view of the urban challenge and the appropriate international donor response.

## Chile HG Program

Last year, the Congress authorized HG activities in Chile. The Housing Guaranty Program in Chile is proceeding as scheduled. The program is targetted to private housing cooperatives which will finance the construction of housing units affordable to families with incomes below the median income level. A.I.D. has signed an agreement with the participating cooperatives and loan documentation is now being completed. Citibank will be the U.S. investor and custodian of the project funds in Chile. As planned, no Government of Chile agency is participating in the program other than the Central Bank. The program will use an existing currency swap mechanism of the Central Bank to cushion the cooperatives from any foreign exchange risk. The initial program activity will be the transfer of ownership of two-room earthquake reconstruction housing to the poor families occupying them. The $5 million Housing Guaranty is expected to create a revolving fund to provide housing for some 3,000 families during the first four years. The program may be extended for up to ten years.

### APPROPRIATION LEVELS

Senator INOUYE. Last year we provided $125 million in guaranteed loans, and this year you are requesting $100 million.

Mr. KIMM. Yes, sir.

Senator INOUYE. In looking over your request, I do not see any request for appropriations for the guaranteed reserve.

Is an appropriation not necessary for that?

Mr. KIMM. Two years ago we set up a process of covering claims, which is what the reserves are needed for, with borrowing authority. We currently have authority to borrow from the Treasury up to $100 million, and we have scored against budget authority the anticipated borrowing for the coming fiscal year, which is $22 million. This appropriations request includes in it the $22 million item which, in effect, is the same account as the appropriation would be for the reserve fund.

Senator INOUYE. And that you feel is proper?

Mr. KIMM. Yes, sir. The major reason for Treasury borrowings at this time comes from the debt rescheduling situation. That is, some of the countries to whom we have made housing guarantee loans have rescheduled their debt through the Paris Club process, and, therefore, the U.S. Government in another forum has agreed with the country that it does not have to make its payments to the U.S. lender. Nevertheless, per the guarantee, we must continue to pay the lender.

However, the countries have agreed to repay these loans under a different timeframe. So we expect to be able to repay the Treasury as those payments are received. So long as the United States believes that the developing countries will ultimately pay their debt, then this is a sound process. If we were to conclude they are not going to pay their debt, then we would want appropriations rather than borrowing authority.

### REGIONAL OFFICES

Senator INOUYE. I notice that you have regional offices in seven countries.

Will you not be saving some money if you combine your activities with the A.I.D. missions of those countries?

Mr. KIMM. Well, the regional office usually acts as an integral component of the A.I.D. mission in the country in which it is located. For example, we have a regional office in Nairobi, Kenya, and it operates as a division of USAID-Kenya. It also has responsibility to provide advice and guidance to six or seven other East African countries.

Incidentally, we have the same problem that the Inspector General has, that is, that from time to time people would like us to bring our people back to the United States for various reasons. I view the matter exactly the same way the Inspector General does, that we need the people in the field to do the job.

Senator INOUYE. Who determines whether a shelter meets the minimal requirements?

You made the statement "the program operates with the conviction that acceptable if minimal shelter for all can be produced." I ask that because it must be a difficult decision to make. You have countries with diverse cultures and backgrounds, and geographic regions, Southeast Asia and Central America, Africa.

Mr. KIMM. Even more disparate than that, we have some programs in Portugal.

Senator INOUYE. So someone must make a decision as to what is minimal. Does your office or the State Department or A.I.D.?

Mr. KIMM. If someone were to say what constitutes acceptable minimum standards within A.I.D., it is my office that does so, but we try to avoid being in such a situation. We try to provide a climate and an opportunity in which the occupant himself makes the decision as to how he allocates his or her resources to determine when their house reaches the minimum standards.

Most people are not satisfied with whatever level of housing they have. They aspire to a higher level. It is indeed that inward drive that makes the problem solvable.

Senator INOUYE. Do you have any problem with the laws and ordinances of host countries in your program?

Mr. KIMM. Yes, Senator. There is a general tendency for the published standards in most developing countries to be idealistically high, and they interfere with efficient operations of the housing market.

On the one hand, the so-called legal subdivisions in some countries require a 6-inch concrete base and curbs and sidewalks and various amenities which most of the people in the country cannot afford.

Senator INOUYE. You mean you have that in developing countries?

Mr. KIMM. We do, indeed.

Senator INOUYE. We still do not have that in Montgomery County.

Mr. KIMM. They have the code, Senator. They do not have the sidewalks; they just have the code. The low income people live in shacks and shanties. The typical problem we have is a builder builds for people who make $10,000 a year. We would like them to build for people who make $2,000 a year.

In order to build for people who make $2,000 a year, a builder cannot file a plan with the city authority to build such a house because they would say it is illegal, it does not meet the standard. In fact, the people who make $2,000 a year live in houses which are built in that city, but they are not built within the formal sector. That has led to the growth of what we have come to call the informal sector which we have all observed in the developing world, and where most of the economic action is.

Senator INOUYE. I asked this question because many, many years ago when I began serving on this subcommittee, I recall a rather enterprising American company that was prepared to build prefab houses in

Central America, setting up the prefabricating plants there and building the shelters, concrete types, at less than half the cost that was at that time announced by A.I.D.

A.I.D. said no because the host country wanted to have a building program that was labor intensive, even if it meant the cost was more than doubled.

Do you have that kind of problem?

Mr. KIMM. No, Senator, I do not think we have that kind of problem today. If it could be made for half the price, then we would make it for half the price.

Senator INOUYE. Well, I thank you very much again, Mr. Kimm.

## SUBMITTED QUESTIONS

I have been advised that Senator Kasten and others have several questions they would like to submit to all witnesses, and the record will be kept open to permit members of the committee to do so.

I thank you very much, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### PRIVATE SECTOR INITIATIVES

SENATOR INOUYE: In response to a legislative requirement initiated by this Subcommittee, A.I.D. recently completed a management study of the Private Enterprise Bureau. The study found that PRE has operated a program parallel to the operating bureaus, and thus has not been adequately integrated into the mainstream of A.I.D.'s operation. The result, they concluded, was a communications gap between PRE and operating bureaus and field missions which limited the Agency's effectiveness in reaching its goals in private enterprise development.

What do you feel could be done to enhance the effectiveness of PRE programs and personnel in meeting field mission objectives?

MRS. PEDEN: In prior years, as the Assessment Report noted, there had been "uneven demand" for some Bureau for Private Enterprise (PRE) activities by A.I.D.'s operating bureaus and field missions. To a major extent, we believe this was due to the time required for a relatively new program to be translated into well designed and managed projects ready for incorporation into bureau and mission strategies. Over the past few years, and over the past several months in particular, bureau and mission financial participation, through buy-ins to PRE projects, has reached levels unanticipated previously, even in a best-case scenario. PRE believes that these expressions of support provide evidence that the demand issues identified by the Management Assessment have been overcome. Nonetheless, the Management Assessment has sensitized PRE staff to the need for increasing collaboration with A.I.D.'s operating bureaus and missions, and we will take every opportunity to strengthen collaboration in order to achieve the Agency's private enterprise goals.

SENATOR INOUYE: What additional resources should the Agency provide to you to fulfill this responsibility?

MRS. PEDEN: The Agency is increasingly sensitive to the need for additional resources to implement its Private Sector Initiative, despite its overall resource constraints. In this context, it is important to note that A.I.D. has made implementation of the Private Sector Initiative a responsibility of all units of the Agency, rather than just a full-time concern of PRE. Although PRE's personnel and funding resources are tight (and major additional responsibilities will need to be faced with initiation of operations under the new investment guarantee element of the Private Sector Revolving Fund), we expect that the Agency will continue to provide adequately for PRE's resource requirements from within its limited capabilities.

SENATOR INOUYE: One of the problems identified by the recent management study conducted of the Bureau for Private Enterprise was the absence within the Bureau of professional businessmen with personal experience in the creation of small and medium-size companies.

Do you believe that this deficiency hampers the Bureau's effectiveness? If so, in what way has it been detrimental?

MRS. PEDEN: While the management study was correct that the Bureau does not have staff with personal experience in the creating of small and medium-sized companies, we do not feel that this has hampered our effectiveness. Many of our staff do have prior experience with private financial institutions and private management firms whose portfolios included financial or management assistance to small and medium-sized companies both in the United States and in developing countries in which we are active. This experience has provided the credibility with host country businessmen and officials as well as with A.I.D. mission staff necessary for us to effectively structure lending programs and technical assistance projects.

SENATOR INOUYE: What are you doing to recruit professional businessmen as full-time staff or advisors to the Bureau?

MRS. PEDEN: First, the investment officers who manage our Revolving Fund are all recruited from the private sector, bringing much-needed financial expertise into the Bureau. Second, a Bureau officer is assigned to the Personnel Office recruitment panels to establish criteria for new-hire personnel and to sit as a member of the panel charged with selection of new employees. Third, we have established a subgroup of the Agency's Private Enterprise Sector Council to work with the Personnel Office to determine the best system to encourage the recruitment and retention of businessmen in the foreign assistance program.

SENATOR INOUYE: In September 1987, I requested that the General Accounting Office undertake a review of A.I.D.'s Private Sector Program and issues concerning the performance of its Revolving Fund. GAO's preliminary findings point to several significant deficiencies in the way the Fund is managed.

What actions has your bureau taken to improve its cash flow projections and to provide more realistic estimates of the funds which might be available and of appropriations which might be required for future operations?

MRS. PEDEN: During the time the GAO audit was underway, PRE was in the process of developing a computer model with which to make cash flow projections for the Revolving Fund. This model has now been developed and is generating reliable cash flow projections.

SENATOR INOUYE: What steps have been taken to improve the accuracy of Fund accounting which GAO investigators found to be incomplete and containing significant errors?

MRS. PEDEN: As the GAO report stated, "The statements [financial statements] reflect Agency records of actual cash receipts and disbursements and are designed to convey the annual financial status of the Fund in a traditional, commercial-type presentation. In preparing the annual reports, A.I.D's consultant found that the Treasury forms contained approximately $2.245 million keypunch errors..." PRE is not in a position to comment on what, if any, steps have been taken at Treasury to improve on this problem. However, I should note that over the four years covered by the review in questions, PRE records were off by only 34 cents.

SENATOR INOUYE: Please provide the Subcommittee with a copy of any audits which have been done on the Fund's financial records.

MRS. PEDEN: There have been no formal audits of the Fund's assets. As pointed out by the GAO auditor, PRE's Office of Investment (PRE/I) hired a consultant to prepare financial statements for the Fund for the period ending September 30, 1987. In the course of his review, the consultant audited both PRE/I records and those at Financial Management. This review identified the discrepancies mentioned above, which have now been resolved.

SENATOR INOUYE: I understand that in response to the GAO inquiry, A.I.D. Revolving Fund managers have established a loss reserve account at 25 percent of outstanding loans.

Do you believe this is a sufficient reserve in the light of known high rates of failures of new business ventures, the recent precipitous drop in basic commodity prices, and the global repercussion which could follow from another stock market crash?

MRS. PEDEN: Since the Fund's inception and prior to the GAO inquiry, A.I.D. Revolving Fund managers had established a loss reserve of 5 percent of outstanding disbursed loans. In addition, legislation to provide the Revolving Fund with authority to issue guarantees requires a reserve account of 25 percent of the amount of guarantees outstanding. We believe that both of these reserves are quite reasonable in light of the composition of our portfolio. It is also expected that the same type of investments will be contemplated under the guarantee authority as have been made with the direct lending program which should make our loss experience to date relevant. We believe that the 25 percent guarantee reserve is more than ample based upon the losses incurred to date by the Fund, which have been no more than 2.8 percent.

SENATOR INOUYE: In your prepared remarks you state that the new Revolving Fund Guarantee Authority would help reduce the risk of lending to small businesses by authorizing A.I.D. guarantees of up to half the amount of possible local bank losses. You justify this program by noting that local lenders are influenced more by aversion to risk than by any lack of liquidity.

What is the basis for this generalized statement?

MRS. PEDEN: The Fund's investment officers, with a combined experience in international banking of more than 55 years, have found that liquidity exists in most developing countries, except those with special circumstances, but that the banking community refuses to lend to small businesses because of its perception that the risk is too high. This view is substantiated by the fact that our current portfolio, for which there has been a continuing demand, is largely made up of projects in which we guarantee 50 percent of sub-loan risk while providing no funds directly to the local lending institutions.

SENATOR INOUYE: Instead of helping individual small businessmen reduce the cost of borrowing, why not help governments to implement monetary policies which would drive down interest rates throughout the economy? Why do you consider your approach to be more economically efficient?

MRS. PEDEN: PRE deals only with the private sector and not with governments. We rely on A.I.D. missions to engage in monetary policy dialogues with the host governments. In addition, we do not "reduce the cost of borrowing" for individual small businessmen. Rather, PRE makes market-priced credit available from the Revolving Fund to sectors of the business community which otherwise lack access to credit. It is expected that LDC banks will seek to reduce transaction costs to these new borrowers as they gain experience in lending to them.

SENATOR INOUYE: What mechanisms will be used to prevent the

Revolving Fund Guaranty Authority from contributing to major distortions in the private lending market?

MRS. PEDEN: The Revolving Fund program in its entirety is designed to minimize distortions in the private lending market while providing access to credit for parts of the business community which otherwise lack access to any credit. The Revolving Fund guarantee will mobilize credit in local economies through local banking institutions at market rates. The guarantee mechanism will be utilized to redirect already existing liquidity to small and medium-sized private enterprises. In addition, Revolving Fund loans involve small amounts since they are used for demonstration purposes. Therefore, they have a minimal effect on the capital markets.

SENATOR INOUYE: If the principal objective of the PRE Bureau is to encourage private enterprise and a reduction in government involvement in the local economies of developing countries, why should this new Guaranty Authority not be viewed as government intervention by another name?

MRS. PEDEN: Without doubt, any of A.I.D.'s programs, including the proposed guarantee authority, can be viewed as government intervention. However, in this case we work directly with the private sectors and lend only at market rates, which are not characteristics of traditional government interventions by foreign donors, including A.I.D. Moreover, we view our participation as short-term. We expect our institutional borrowers to find small business lending profitable and continue this practice after A.I.D. Revolving Fund involvement is phased out.

SENATOR INOUYE: How are United States foreign policy objectives in the developing world enhanced by this new guarantee authority?

MRS. PEDEN: U.S. foreign policy objectives in the developing world are enhanced by the guarantee authority by virtue of the fact that the guarantee will significantly increase the magnitude of A.I.D.'s private sector impact. This guarantee authority is directed toward the further development of local private sectors in the Third World. It is the Congress' finding, as articulated in Section 108 of the Foreign Assistance Act, that "... the development of private enterprise... is a vital factor in the stable growth of developing countries and in the development and stability of a free, open and equitable international economic system."

SENATOR INOUYE: What are the benefits to the American consumer and to the small businessman or both of extending U.S. government guarantees to foreign-owned enterprises overseas?

MRS. PEDEN: The American consumer and small businessman derive indirect benefits from this activity. First of all, all Americans benefit from a successful foreign policy, particularly one which enhances the development of LDC private sectors. More specifically, a successful Revolving Fund, as augmented, may develop trading partners for U.S. businesses, provide opportunity for the transfer of U.S. technologies, provide markets for U.S. goods and services, and generate other unforeseen benefits.

SENATOR INOUYE: The GAO found that A.I.D. does not have a formal policy defining what risk of losses are necessary or acceptable for effective Fund loan guarantees to local banks. In each Asian country GAO visited, it found that local banks participating in Fund projects had used their basic loan qualification criteria, which required that small businesses provide substantial collateral often in excess of 150 percent of the loan value, to reduce the risk of sub-loan default.

With A.I.D. guaranteeing up to 50 percent of the loan principal against default, do you feel that such collateral policies are inconsistent with the basic purpose of the Fund loans which is to encourage local bank lending to higher risk markets?

MRS. PEDEN: In light of the auditor's recommendations, Fund managers have determined that an explicit overall policy of risk for the Revolving Fund will be helpful and are in the process of developing such a policy. Until now, risk has been assessed on a project-by-project basis. Management now believes that it has an experience base with which to codify an overall risk policy for the Revolving Fund.

Collateral requirements are one of the elements that will be addressed in this policy. However, in our continuing effort to have an institutional impact on local financing institutions, we realize that collateral is only one of the elements in the way a bank does business that we are trying to affect. The Fund must first encourage a local bank to consider entering developmentally desirable markets which will prove to be profitable. Secondly, we encourage banks to offer term lending and cash-flow lending, thereby reducing collateral requirements.

In a discussion of risk and collateral requirements, we think that it is important to point out that even a bank in the United States financial environment does not consider a fully collateralized loan risk-free. This is certainly also the case in the developing world. Banks are not in the business of collecting loans against collateral and, in fact, consider that a loan has "gone bad" when it has reached that point.

Lending institutions are interested in making credit available to enterprises which will repay on a timely basis. We believe our role is to expand the horizons of these lending institutions and demonstrate to them that new classes of borrowers are creditworthy. If we force banks into unprofitable lending, we will have failed in our mission. Additionally, A.I.D. missions will not seek to replicate a "failed" process.

SENATOR INOUYE: In shaping the programs of the private sector program has A.I.D. sought out the views of the American business community?

MRS. PEDEN: A.I.D. constantly uses the U.S. business community as a source of expertise in shaping our programs and in delivering the assistance under those programs. We have sponsored several programs that permitted U.S. businessmen to participate with host country businessmen and government officials to identify market constraints and design programs to remove those constraints, to look for joint ventures and otherwise promote opportunities for participation by U.S. businesses. Our support to the International Executive Service Corps provides a vehicle that gives retired U.S. businessmen direct hands-on contact with the LDC business community to help solve problems ranging from shop-floor advice to policy guidance that reduces regulatory barriers to expansion.

SENATOR INOUYE: If so, have they expressed any concerns regarding the impact of the program on American business overseas?

MRS. PEDEN: The U.S. businessmen who have participated with us generally feel that our programs aimed at market expansion in developing countries are beneficial. Expanded markets provide added opportunities for U.S. exports; policy and regulatory reform give U.S. businessmen the benefit of a "level playing field" on which they can compete on even terms; and our efforts to promote trade and investment opportunities are making U.S. business more competitive in world markets.

SENATOR INOUYE: How has the fall in the world price for basic commodities affected capital formation in the less developed countries and hence the success of A.I.D.-sponsored private sector initiatives?

MRS. PEDEN: Lower world commodity prices negatively affect the ability of the private sector to obtain foreign exchange required to purchase raw materials, equipment, spare parts, and other foreign resources needed to maintain and expand productive operations. However, it is our experience that a much greater barrier to capital formation, and to the success of A.I.D.'s Private Sector Initiative, is host country policies and regulations which discourage market forces and private enterprise activity.

For this reason, A.I.D. has devoted considerable resources to structural adjustment within less developed country economies. This process is one that PRE, in particular, is able to facilitate through its specialized technical assistance--e.g., its projects concerning Financial Markets, Divestiture and Privatization, and Private Enterprise Development Support, and the Private Sector Revolving Fund. Once private market mechanisms are in place and operating successfully, pressures generated by lower prices for basic commodities are relieved.

SENATOR INOUYE: What type of political and environmental risk analysis does the Bureau for Private Enterprise undertake to properly assess the investment climate in developing countries?

MRS. PEDEN: Political and environmental risks are factors of particular concern to the operation of the Private Sector Revolving Fund loan program. PRE is mindful of the Congressional mandate to assure that Revolving Fund projects are financially viable, which includes concern for political risk and environmental suitability.

Accordingly, PRE's project officers draw upon a variety of sources to make and confirm risk analyses. Opinions concerning political and environmental risks for Revolving Fund activities are sought from A.I.D. missions and embassies and the Department of State, as well as from other U.S. Government organizations operating in the international arena, e.g., the Overseas Private Investment Corporation, Ex-Im Bank, etc. Similarly, Revolving Fund projects are reviewed by the Loan Review Board, a private sector group constituted specifically for the purpose of assessing project viability. Finally, all Revolving Fund projects are developed by A.I.D. loan officers experienced in international investment banking and risk assessment.

SENATOR INOUYE: How have environmental considerations affected A.I.D.'s investment strategy for the private sector Revolving Fund?

MRS. PEDEN: Under Section 108 of the Foreign Assistance Act, PRE is required to work primarily through intermediate financial institutions (IFIs). We are not required by regulation, nor are we in a position, to monitor the environmental impact of IFI subloans. Moreover, the micro and small business lending that we assist through IFIs does not normally raise environmental concerns. We feel justified, therefore, for the major portion of our program, to leave environmental questions to the relevant host-country authorities. Nevertheless, we always prohibit use of A.I.D.-guaranteed funds for the purchase, production and marketing of pesticides. In addition, in the Philippines, we require prior consultation with national environmental authorities for activities that may affect certain environmentally delicate habitats; and we require that sub-borrowers comply with the host country government's environmental regulations.

## OFFICE OF FOREIGN DISASTER ASSISTANCE

SENATOR INOUYE: In your prepared remarks you indicate that your agency is "refocusing" its efforts "away from costly commodity deliveries and equipment expenditures to the provision of technical experts and assistance in disaster management and operations." You conclude that "this concentration on using people and their expertise to address actual and impending crises is the most cost-effective."

I am disturbed by this statement because it signals a movement away from your Office's principal objective, as reiterated by this Subcommittee over the years, which is to attend to the immediate needs of individuals in distress with basic life-saving and life-sustaining commodities.

Can you assure this Subcommittee that your Office has not abandoned its primary mission of providing food, clothing, medicine and blankets to disaster victims? You are not just sending technical experts, crisis management consultants, and white-collar paper-pushers, are you?

MRS. TAFT: The most consistent lesson we have learned in our nearly 25 years of experience is that the vast majority of assistance to disaster victims derives from the host country. That being the case, the most cost-effective means of assisting the victims is to help their own country to accurately assess their needs and to speed delivery of essential relief items. When appropriate and feasible, the Office of Foreign Disaster Assistance (OFDA), in concert with other donors, ensures the procurement of vital relief commodities within the host country. Whenever essential items are lacking, OFDA provides them in the speediest, most efficient manner, most frequently from our five regional stockpiles.

My reference to de-emphasizing costly commodity deliveries was not meant to imply that OFDA has reduced its provision of life-saving commodities. We now provide those commodities through a combination of local procurements in the affected country as well as through our stockpiles. This is not only cost-effective, but ensures a more rapid responsiveness to the needs of disaster victims.

Food is most commonly provided through the Food for Peace program. In the few instances where clothing is a priority need, we generally provide it through U.S. private and voluntary organizations. OFDA funds medicines through competent, U.S. and international agencies such as World Health Organization, Pan-American Health Organization, and United Nations International Children's Fund. Blankets, shelter supplies and other relief materials are readily available and utilized from the five OFDA regional stockpiles.

SENATOR INOUYE: What is your agency doing to enhance the visible profile of U.S. disaster assistance so that the American concern for individual lives is clearly demonstrated to the people of foreign countries in distress?

MRS. TAFT: We rely heavily on the U.S. Embassy and United States Information Agency to ensure that the U.S. contributions to disaster victims is fully recognized abroad. The recognition on the part of the media in the affected country is, in most cases, excellent. In addition, we issue press statements, circulate situation reports, hold press backgrounders and (when appropriate) facilitate access by the media to the disaster area.

SENATOR INOUYE: Do you agree that a visible demonstration of American concern is important and that it serves legitimate U.S. foreign policy objectives?

MRS. TAFT: The demonstration of humanitarian concern is a significant part of America's heritage. We take great pride in the visibility that concern achieves and in the furtherance of foreign policy objectives. In terms of commodity supplies, all the new OFDA tents and plastic sheeting bear an A.I.D. emblem. We deliver U.S.-made relief commodities on U.S. carriers or U.S. military aircraft. The technical personnel are typically U.S. citizens who bring great credit to the United States for the constructive life-saving assistance they ensure, such as the U.S. search and rescue teams and logistics specialists.

SENATOR INOUYE: I am also concerned by the growing reliance of your office on high-technology at the expense of proven and effective methods of providing disaster assistance. Remote sensing satellites, expensive communications equipment and real-time data transmission linkups are no substitute for fully maintained stockpiles and hands-on care. In the locust-ravaged areas of Africa, high technology is no substitute for trained entomologists.

What advance warning did you have of an impending locust plague in Africa?

MRS. TAFT: The full extent of the infestation was not ascertainable until the early months of 1988. During the summer of 1986, there were reports of a locust buildup in Mauritania. Algeria sent two aircraft, but they failed to find any suitable control targets.

During the late summer of 1987, reports of a sizeable infestation in eastern Chad and northern Mali were received, but joint United Nations Food and Agriculture Organization (FAO) and A.I.D. surveys failed to reveal any extensive buildup, due to the inaccessibility of much of the northern Chad breeding area. Some ground control efforts, on a limited scale, were initiated in southern Algeria and northern Niger by Algeria, Mali and Niger.

At the same time, control efforts were conducted on several small scattered swarms in accessible areas of northern Ethiopia.

In the late fall of 1987, some 40 small swarms invaded southern Morocco and were successfully controlled. But nothing to that time was indicative of a plague.

It was not until the spring (February and March) of 1988 that the full extent of the locust upsurge could be determined, when a major invasion of northwest Africa began. Swarms apparently originated in northern Chad, southern Algeria and the northern Mauritania-Western Sahara inaccessible areas.

Widespread rainfall in the primary breeding areas is a key factor in forecasting desert locust plagues. The use of greenness maps prepared by USGS for A.I.D. are especially useful in determining potential breeding sites. Unfortunately, due to remoteness and the threat of hostile action many of these breeding areas were inaccessible to survey teams.

Technology applications enhance the ability of entomologists to determine potential breeding locations and areas where swarms are based. Through satellite "greenness maps" and meteorological data on the direction of winds and rainfall patterns the U.S. Government has provided valuable tools to crop protection services in targetting their campaigns. These scientific techniques, however, cannot determine the exact location of locusts, but they do indicate areas requiring human observation.

SENATOR INOUYE: Is it not true that your earliest, and best, information on the early movement of the locusts came from human observation, not remote sensing?

MRS. TAFT: Yes, remote sensing can only detect areas suitable for locust buildup. Remote sensing systems in the public domain cannot detect locust populations.

SENATOR INOUYE: What difference could real-time data on the locust plague have made in your calculations of how best to structure a response?

MRS. TAFT: A.I.D. recognizes that ground surveys are inefficient. It is estimated by most experts that only about 10% of all hopper bands within an infested area can usually be detected. Swarming adult locusts can be detected by aerial reconnaissance along weather frontal systems. The use of greenness maps are of major assistance in locating potential breeding areas while appreciably reducing the area requiring survey. Better access to these remote and sometimes hostile areas would have provided more time for strategic planning to enable control efforts to be conducted at the most opportune time and location. It would have allowed for the pre-positioning of pesticides, aircraft and other needed equipment and personnel at these strategic locations in advance of the invasion. Despite new technology, locust detection must still rely to a major extent on visual observation with short interval forecasting of migration routes based on fluctuating weather patterns.

SENATOR INOUYE: What new problems do you expect Africa to experience as a result of the locust plague? Have you begun to plan a response? If so, what have you done?

MRS. TAFT: Another invasion of north African nations in the fall of 1988 is expected. Adequate rainfall south of the Atlas mountains in 1987-88 helped keep the locusts out of principal cropland areas. If drier weather occurs this fall and winter to the south of the mountains without adequate controls, more widespread crop damage in northwest Africa could occur than was experienced in 1987-88.

Good rains that have occurred in northern Ethiopia have provided ideal breeding conditions. If the Government of Ethiopia does not allow control efforts in this area during the winter locust-breeding season, the plague could possibly spread east to the Arabian peninsula or south to Kenya, Somalia, Tanzania and Uganda.

Entomologists, aerial spray technicians, aircraft, pesticides and other campaign support have been deployed to affected countries by OFDA. For Ethiopia, where U.S. Government personnel are not able to participate directly in the campaign, we are funding pesticides and flight hours for the Desert Locust Control Commission/East Africa.

A.I.D./OFDA has been responding to the locust/grasshopper infestation since 1986. In June of 1988 the Administrator of A.I.D. formed the Desert Locust Task Force whose primary responsibility is to coordinate this U.S. Government response for controlling desert locusts. In FY 1988 A.I.D. expenditures for the control of desert locust are over $18 million. Activities include pesticide purchases, technical assistance, aircraft rental, radios and equipment. A.I.D. will continue to review its locust control response on a day-to-day basis. In addition, OFDA is working with other A.I.D. bureaus and offices to address issues of pesticide management, storage and disposal.

SENATOR INOUYE: What lessons have you learned from this most recent failure in Africa and what future changes do you expect to make in the way plagues are managed?

MRS. TAFT: To date the locust/grasshopper control campaigns have been a success. This is despite the fact that control efforts are difficult to organize and coordinate with logistical problems ever-present. Locust plagues can never be eradicated. Control is the best one can hope for. Additionally, long-range weather forecasting is still an imprecise science. Satellite imagery of heavy cloud formations and areas of green vegetation still require ground truth data to confirm locust breeding and reproduction. Although use of satellite imagery is a guide to potential danger areas, ground surveys are necessary to confirm that indeed a gregarious locust population exists. Lack of access to these areas enables the population to build undetected. Mid-and long-term programs to provide training and support of National Plant Protection Departments to develop their capabilities have been implemented by various A.I.D. missions in the affected nations. These training efforts will improve the host country response mechanism when and if another plague occurs.

SENATOR INOUYE: I understand that last year A.I.D. was criticized for using the chemical Dieldrin, a type of DDT, in its fight against locust infestation in Africa. The chemical is banned in the United States and has been linked to cancer.

What pressure is A.I.D. under from the international community and host governments in Africa to use the pesticide Dieldrin?

MRS. TAFT: A.I.D. has not used and has vehemently opposed the use of Dieldrin or other chlorinated hydrocarbon insecticides for locust control. These are prohibited-use pesticides in the United States and most nations of the world. The United States has been successful in persuading the FAO to publicly state its opposition to the use of Dieldrin. France is the only donor nation which continues to advocate its use. Although many locust-infested nations have stocks of Dieldrin on hand, they have agreed to forego its use and A.I.D. is working with them to determine the best means to dispose of these materials. A.I.D. will not reverse its opposition to the use of Dieldrin.

SENATOR INOUYE: I understand that three other pesticides are available for use this year (malathion, fenitrothion and carbaryl). While they are supposed to be considerably less toxic to human beings than is Dieldrin, they also are less effective against locusts. The result is that more of the chemicals must be used.

Is this information correct and if so, what have been the results of the use of these three pesticides in Africa this year?

MRS. TAFT: It is not that these insecticides are less effective than Dieldrin. They are all highly efficient against locusts. The difference is that these are all relatively short-residue insecticides, so timing and precision of application are more critical and require a higher level of technology for their efficient use. These pesticides are much more environmentally acceptable than Dieldrin.

SENATOR INOUYE: Have any toxic effects been seen in human beings from these three newer pesticides?

MRS. TAFT: No reports of human toxicity as a result of application of these pesticides on the locust control program have been received by OFDA.

SENATOR INOUYE: There are reports that locust larval bands are being found in northern Mauritania in areas that already have undergone pesticide treatments.

How extensive is this problem in Africa and what is being done to reevaluate the effectiveness of the pesticides now being used?

MRS. TAFT: Controls are closely monitored as to the efficacy of the applications. There is no evidence of any reduced effectiveness as a result of prolonged use of these chemicals. Reinfestation of previously treated areas does sometimes occur resulting from the great mobility of this insect rather than reduced efficacy of the pesticides used.

SENATOR INOUYE: What is the current status of U.S. disaster assistance stockpiles around the world?

MRS. TAFT: Commodities are at or near stockage objectives in all the stockpiles. Resupply actions are in process to fill any recent drawdowns. Additional commodities in the form of individual support kits, intermediate support kits, body bags, and related search and rescue items are being added to the stockpile inventory as funding permits.

SENATOR INOUYE: Have on-site, physical inventories been conducted at each stockpile within the past two years?

MRS. TAFT: An on-site, physical inventory of the New Windsor, Maryland stockpile was undertaken in May, 1987; of the Leghorn stockpile in November, 1987; of the Panama stockpile also in November, 1987; of the Singapore stockpile in April, 1988; and of Guam in March, 1986. I personally visited, along with the OFDA Logistician, the Guam stockpile this past February and a full inventory is scheduled for this July.

SENATOR INOUYE: Are you satisfied that the stockpiles are fully stocked?

MRS. TAFT: Given their current stockage levels and the resupply actions under way, the stockpiles are prepared for worldwide disaster responses in keeping with the strong tradition of American humanitarian concern.

## AMERICAN SCHOOLS AND HOSPITALS ABROAD (ASHA) PROGRAM

### FEINBERG GRADUATE SCHOOL OF THE WEIZMANN INSTITUTE OF SCIENCE

SENATOR INOUYE: In its report last year, the Committee strongly encouraged A.I.D. to favorably consider the Feinberg Graduate School's application for grant assistance for Fiscal Year 1988.

What level of funding are you providing to the Feinberg Graduate School this year?

MR. SANTOS: One million dollars to procure scientific equipment for study and research in the natural sciences.

SENATOR INOUYE: Have non-Israeli students, primarily from the developing world, been attracted to the Feinberg Graduate School?

MR. SANTOS: The number of non-Israeli students was 125 out of the 625 enrolled in 1988. Half of these non-Israeli students are from 14 countries in Central and South America, Africa and Asia.

SENATOR INOUYE: Has the school served to forge permanent links between Israel, the United States and the developing world? If so, what are they?

MR. SANTOS: There are examples of this dating back to the American founding of the school in 1958. The training practices at Feinberg, which was chartered in the United States, follow closely the U.S. concepts of scientific education in which student participation in advanced research is considered the best method of preparation for a scientific career. Close to two thirds of the school's graduates, including some from developing countries, conduct their post-doctoral research in leading U.S. institutions. In this way, there is interaction and linkage between the United States, Israel and the developing world. A few examples are:

— Teaching methods developed by Feinberg's Science Teaching Department for enhancing the interest of youngsters in learning science and mathematics are being adapted for use in Singapore and are expected to be applicable in developing countries.

-- A Ghanian scientist continues research on endemic diseases in his own country following his doctoral program at Feinberg where he worked on the development of a drug for treatment of sickle-cell anemia, a disease of worldwide consequence and U.S.-linked study.

— In the field of plant genetics, scores of Feinberg students from various countries have participated over the years in the development of improved, higher yielding, more nutritious food crop varieties as part of an international effort involving American scientists, institutions and equipment.

SENATOR INOUYE: Have any ASHA funds to the Feinberg Graduate School been used to fund programs which benefit the poor in Israel, particularly Israeli Arabs? If so, what are they?

MR. SANTOS: ASHA funds are for procurement of U.S. scientific equipment. We are aware, however, that no student is turned away on economic grounds, and that the School is a pace setter in fostering young scientific talent, especially in disadvantaged communities of Israel. Feinberg produces textbooks in Hebrew and Arabic, provides guidance and sponsors special extra-curricular activities for schools and students in Arabic and Hebrew speaking sectors of Israel.

SENATOR INOUYE: It is my understanding that over the years these partnerships between the Weizmann Institute and numerous American research institutes and universities have produced many notable achievements in the fields of science, technology and medicine.

What are some of these achievements and describe how they have benefited citizens in this country as well as those in the developing world?

MR. SANTOS: ASHA assistance is to benefit the Feinberg Graduate School, not the Weizmann Institute at large. However, Weizmann scientists teach at the School and students benefit by the Institute's formal partnerships with American institutions, such as Johns Hopkins, Northwestern, Yale, Rockefeller and several U.S. State universities, the Philadelphia Children's Hospital and Evanston Hospital in Chicago.

Among the notable achievements of research involving students is the development of advanced genetic engineering methods for transferring desirable long-lost characteristics of ancient wild wheat species to today's wheat. This also doubled the protein content of wheat varieties used in bread and macaroni products.

Clinical trials in the United States of a drug developed in Israel is proving effective in the early-phase treatment of multiple sclerosis. There are also techniques developed to reverse blood cancers, and research on how drugs and depression affect the brain's bio-chemistry. Computation technologies made possible the design of foolproof credit and identity cards, the so-called "smart cards."

It should be kept in mind, however, that applied research at Feinberg is a teaching method, not the goal of the School. The School's primary aim is the education of well trained scientists. Selected for their aptitude and appetite for scientific discovery and trained by practice in the conduct of research, the School's graduates are prepared to conduct both applied and basic research.

## HEBREW UNIVERSITY AGRICULTURAL SCHOOL

SENATOR INOUYE: I understand that you have opposed ASHA funding of the International School of Agriculture on the following grounds: (1) That it is affiliated with the Hebrew University and lacks an American connection, (2) that the ASHA program is limited to institutions demonstrating U.S. achievements in education and medicine, and (3) that the School does not fulfill the ASHA objective of fostering "American ideals and values."

MR. SANTOS: We have advised the U.S. representatives of the School that ASHA is not an appropriate source of assistance. The International School of Agriculture and its parent, Hebrew University, are Israeli institutions. The School's stated objective is to demonstrate Israeli know-how. To the extent the interests of this institution may coincide with those of the United States, there are, and likely will continue to be, mutually agreed programs of U.S. Government support from sources other than ASHA.

SENATOR INOUYE: What is "an American school" under ASHA's definition and where, in either legislation or ASHA's program guidelines, is this spelled out?

MR. SANTOS: American Schools and Hospitals Abroad is the name of the legislation and the program. The criteria are a logical extension of the legislation. They are used to determine eligibility and the extent to which the sponsors' and institutions' objectives and activities are compatible with the ASHA legislation. A paramount criterion is whether the institution reflects favorably upon and increases understanding of the United States. An institution internationally known to be Israeli is not in a position to do so.

SENATOR INOUYE: Where, in either legislation or ASHA's program guidelines, does it state that ASHA funds can flow only to an institution that is strictly an American entity or controlled by American law?

MR. SANTOS: Section 214 requires funds to flow to institutions outside the United States founded or sponsored by U.S. citizens and serving as study and demonstration centers for ideas and practices of the United States.

SENATOR INOUYE: Where, in either legislation or ASHA's program guidelines, does it state that the ASHA program is limited only to institutions demonstrating U.S. achievements in education and medicine?

MR. SANTOS: The legislation provides for funds to be made available only for institutions "founded or sponsored by U.S. citizens and serving as study and demonstration centers for ideas and practices of the United States." Upon publishing the criteria in the Federal Register, the Agency stated that "grants made under this program help such institutions demonstrate to people overseas the achievements of the United States in education and medicine."

SENATOR INOUYE: Do you acknowledge that the International School of Agriculture places special emphasis on agricultural problems of arid and semi-arid zones, and has created a World Hunger Center dedicated to sharing the agricultural know-how and expertise of Israel with developing countries by educating and training students from these areas?

MR. SANTOS: That is the School's self-description of its work.

SENATOR INOUYE: In what way do these objectives differ from those of other ASHA-funded institutions like the American Farm School in Thessaloniki, Greece, or the Panamerican Agricultural School in Zamorano, Honduras?

MR. SANTOS: The International School of Agriculture brings students to Israel from selected developing countries to share Israeli expertise and experience. The institutions in Honduras and Greece are demonstration centers for U.S. ideas and practices in agriculture. Both of the latter were founded by American citizens, have had predominantly U.S.-citizen Boards of Trustees, have been incorporated in the United States from their inceptions, are recognized by the IRS as non-taxable 501(c)(3) institutions, and are recognized in the areas they serve for both their historic and contemporary American character.

SENATOR INOUYE: Having already established the precedent of funding agricultural training institutions, how can you claim that the International School of Agriculture is an inappropriate ASHA grantee?

MR. SANTOS: We do not claim that it is inappropriate because it is agricultural, but because it is an Israeli institution demonstrating ideas and practices of Israel.

SENATOR INOUYE: I understand that the International School of Agriculture is in the process of incorporating in the United States and that it has a U.S. sponsoring organization called the American Friends of the International School of Agriculture. I also understand that most of the faculty members of the school have close ties with American institutions and professional organizations, and that it has applied for tax exempt status in the United States.

In what way do these expressions of American affiliation not conform with established ASHA criteria?

MR. SANTOS: The existence of a U.S. support group would not change the fact that by history and identification the school is well established as Israeli. The overriding fact is that the institution's objective is the demonstration of Israeli achievements in agriculture. It is not in a position, despite expressions of American affiliation, to increase understanding of the United States or to be thought of as an American institution. Faculty interaction with U.S. institutions is common among major universities around the world; this does not make these institutions candidates for ASHA assistance.

## ASHA - GENERAL QUESTIONS

SENATOR INOUYE: Describe the review process for ASHA grant applications.

MR. SANTOS: Applications are assessed to determine the extent to which each applicant (a) meets the objectives of Section 214 of the Foreign Assistance Act and the ASHA program criteria, and (b) justifies the need for and the benefits and cost-effectiveness of the assistance requested. The number and magnitude of the requests, the size of the ASHA budget, and an applicant's ability to effectively use assistance are also factors which play a role in determining the allocation of funds.

SENATOR INOUYE: What is the ratio of applicants to acceptances in each of the last five years?

MR. SANTOS: For each of the last five years the number of applicants/number of grants is as follows: 1984 - 58/40; 1985 - 67/40; 1986 - 59/41; 1987 - 65/43; 1988 - 77/41.

SENATOR INOUYE: How many persons does ASHA employ in an administrative and clerical capacity? Has there been any change in staff size in recent years?

MR. SANTOS: The ASHA office has a six-person staff, four administrative, one program operations assistant and one secretary. During the 1980s, staff was reduced by one administrative officer and one secretary. Because of growth in the program, an additional position has been allocated which will be filled in the near future.

SENATOR INOUYE: Do you believe that ASHA program criteria should be expanded, or more liberally interpreted, so as to encompass institutions now being excluded?

MR. SANTOS: We are studying the feasibility of doing so and will provide the Committee with our response later this year.

SENATOR INOUYE: Do you publicize the availability of ASHA grants and could you please provide this Subcommittee with samples of publicity material used both in the United States and abroad?

MR. SANTOS: Prospective applicants are provided information about the application process. However, it has not been necessary to publicize the program because of the extent to which it is annually oversubscribed. Requests increasingly exceed available funds, e.g., by more than 2.5 to 1 in FY 1988.

## CHILDREN

SENATOR INOUYE: In its report last year, the Committee expressed its concern for the plight of homeless children and those who are mentally and physically impaired.

What effort are you making to impart this concern to the recipients of ASHA funds and encouraging them to positively contribute to the alleviation of child suffering?

MR. SANTOS: Our report to the Committee, due later this year, will address the extent to which ASHA institutions are meeting the problems of children.

SENATOR INOUYE: What steps have you taken to meet the Committee's concern that ASHA eligibility criteria be revised so as to permit institutions which provide shelter for homeless children, or which help children who are mentally and physically impaired, to compete for ASHA grants?

MR. SANTOS: We are studying the feasibility of doing so, and will provide the Committee with our response later this year.

SENATOR INOUYE: Do you have any proposals for revision of the criteria?

MR. SANTOS: We have no proposals for revision of the criteria at this time.

## JERUSALEM ELWYN

SENATOR INOUYE: What is A.I.D. policy concerning the funding of international programs which are designed to help handicapped individuals become independent, contributing members of society?

MR. SANTOS: There is no Agency policy regarding the handicapped per se, but neither does the Agency ignore the problem. The Agency's objective is to increase life expectancy in the developing countries, where half the deaths occur among infants and children. The Agency's policy is therefore focused on the reduction of infant and child mortality, morbidity, disease and disability, the key causes of which are the interactive cycles of poverty and disease.

SENATOR INOUYE: What is the legislative basis for the A.I.D. policy?

MR. SANTOS: I would have to say it is the whole of Part I of the Foreign Assistance Act as amended, supported by the Food for Peace programs and to a greater or lesser extent by a variety of special programs advancing trade and economic opportunities in the developing countries.

SENATOR INOUYE: How is this policy implemented by the various A.I.D. programs, such as the American Schools and Hospitals Abroad program and the West Bank/Gaza program?

MR. SANTOS: ASHA-assisted institutions annually educate more than 200,000 students at the secondary and higher levels and provide medical services to more than four million people. Persons from more than 100 countries benefit from their educational and medical programs. The institutions provide skilled human resources, undertake research and perform services which attend the variety of interlocking concerns of Agency focus.

As for the West Bank/Gaza programs, special circumstances have justified assistance for selected activities for the handicapped. The emphasis is on prevention by early diagnosis and education in the care of the handicapped. To the degree these activities have been successful and are able to meet the agreed objectives, the Agency will continue to give favorable attention. However, I understand it is not and has not been the strategy to encourage expansion of such efforts, as program emphasis is given to activities which foster generation of income and economic opportunities.

SENATOR INOUYE: Can A.I.D. identify projects currently receiving funding which support handicapped individuals?

MR. SANTOS: I understand there are two programs, both conducted by private voluntary agencies, which include support for the handicapped and which are active in the West Bank and Gaza areas. These are the Village-in-Reach Program and the Mothers Home Care and Early Intervention Program.

SENATOR INOUYE: Has ASHA contacted the U.S. Consul General in Jerusalem who recommended that the Elwyn program be funded?

MR. SANTOS: A former U.S. Consul General was interested in the work of the Elwyn Institute, but realized there were no funds available from the West Bank/Gaza program. He suggested that Elwyn explore the possibility of ASHA as a potential source of funding. We last heard of his interest in the fall of 1987.

SENATOR INOUYE: What are the American ideas and practices that ASHA seeks to promote abroad?

MR. SANTOS: They include independent inquiry, academic freedom, private initiative, innovative approaches to problem solving, close student-faculty relationships, respect for diversity, as well as U.S. methods and techniques employed in various disciplines that are suitable for use or adaptation in other countries.

SENATOR INOUYE: How do you go about assessing whether an applicant advocates and transmits American ideas and practices to its students?

MR. SANTOS: By requiring and evaluating information about the history, character and objectives of an institution including its curricula, faculty, use of American ideas and practices, and the relationships that exist between the institution and those Americans who apply for assistance as the founder or sponsor of the institution.

SENATOR INOUYE: Do you consider fostering the notion of self-reliance in food production to be an American ideal worth transmitting to the less developed world?

MR. SANTOS: Food self-sufficiency is a universal desire of nations, developed or developing, irrespective of whether the desire is fulfillable.

SENATOR INOUYE: Do you acknowledge that Israel is recognized internationally as a leader and innovator in agricultural technology, particularly in harsh environments?

MR. SANTOS: I am aware that Israel has successfully converted arid land to productive use and that institutions in Israel are cooperating with the United States to investigate and advance arid-land agriculture.

### ASHA - GENERAL

SENATOR INOUYE: Do you provide any instruction to new grant applicants on how they might improve their chances of acceptance?

MR. SANTOS: We spend a good deal of time explaining the program and the application process to prospective applicants, including guidance to eligible organizations on how they might better present their proposals. We, of course, cannot assure applicants that a grant will be made.

SENATOR INOUYE: What do you see as the primary objectives of the ASHA program?

MR. SANTOS: Section 214 of the Foreign Assistance Act and its legislative history set forth the primary objectives of the program, which are to provide foreign nationals, in their own environment, American-style education appropriately adapted to overseas needs, to assist American-sponsored institutions which bring honor to the United States, to foster understanding between Americans and citizens of other countries, and to train a cadre of individuals able to advance the economic and social development of their regions.

SENATOR INOUYE: Is the program fulfilling these objectives? If not, why?

MR. SANTOS: Institutions receiving ASHA assistance have an excellent record of using funds efficiently to improve facilities and strengthen programs which advance these objectives.

SENATOR INOUYE: What do you consider to be ASHA's greatest accomplishments over the years?

MR. SANTOS: The increase in the number and geographic distribution of institutions assisted has been a major accomplishment. Since 1978, we have assisted 109 institutions. Seventy-six institutions and 21 countries have been newly represented in the program, the great majority in Africa, Asia, Latin America and the Caribbean. The annual number of students enrolled in and individuals receiving medical services from ASHA-assisted institutions has approximately tripled to 4.2 million persons.

SENATOR INOUYE: Where do you feel ASHA could make improvements in its operation?

MR. SANTOS: I believe on the whole that ASHA operations have been responsive, efficient and effective in carrying out the Section 214 legislation, while protecting the public interest and safe-guarding the integrity of private institutions participating in the program.

SENATOR INOUYE: Please provide the Subcommittee with an accounting of all disbursements made by ASHA over the last eight years to start-up institutions or institutions which had been in existence for less than two years prior to their receiving ASHA funds.

MR. SANTOS: There are four institutions in this category. Our assistance during the eight year period (FYs 1981-1988) to these institutions is as follows:

| | |
|---|---|
| American University of Les Cayes, Haiti | $3,200,000 |
| American Medical Center, China | $3,000,000 |
| Center for American Studies and Life Sciences, China | $4,000,000 |
| Simon Mazorodze Institute for Biomedical Education and Research, Zimbabwe | $2,550,000 |

## EXPANDED OVERSEAS STAFF

SENATOR INOUYE: The FY 88 Continuing Resolution includes the first phase of a Congressional initiative to strengthen accountability over the U.S. economic foreign aid program. In support of this initiative the Congress increased the FY 1988 appropriation request for the Inspector General in order to fund the first increment (15 positions) of a planned addition of 47 full time employees to the Office of Inspector General.

Have these additional personnel been hired and where will they be posted?

GENERAL BECKINGTON: The additional staff have either been hired or are at some stage of the hiring process. For example, an individual commitment has been made but the required medical or security clearance has not yet been completed. We plan to assign eight of these individuals to overseas posts and seven will be located in Washington, D.C. However, as of this date the Department of State has denied my request to increase overseas staffing.

SENATOR INOUYE: How have the recent A.I.D. scandals in Costa Rica and Belize affected the overall operational ability of your office to carry out routine audit reviews?

GENERAL BECKINGTON: The unexpected problems that were found in Costa Rica and Belize, as well as unanticipated requirements in several other countries, such as Ecuador and El Salvador, place an additional strain on already severely limited resources. As stated in my testimony, current staffing levels only permit me to target audit coverage over 25 percent of the Agency's expenditures, and then, only on a five year cycle. These unforeseen problems further limit even this unacceptably low level of audit coverage.

SENATOR INOUYE: I understand that the President's budget calls for an allocation of $23.1 million for your office in fiscal year 1989. This is $0.8 million less than your current allocation for fiscal year 1988. This is of particular concern to me as chairman of this Subcommittee since in our report last year we expressed support for the work of the Inspector General and his need to adequately account for a total foreign aid pipeline in excess of $27 billion covering an estimated 5,000 active contracts and grants.

How well have you been able to conduct the work of your office at this level of funding?

GENERAL BECKINGTON: We have not been able to provide an acceptable level of audit and investigative oversight. Current funding levels permit over 75 percent of the Agency's expenditures and programs to go unaudited. Only those areas that fall within a prioritized audit universe will be considered for audit attention and then, only on a five year cycle. Experience shows that even this planned level of coverage is often interrupted by unforeseen requirements such as the audit oversight of the Nicaraguan Humanitarian Aid and El Salvador Earthquake Program.

SENATOR INOUYE: How have the added responsibilities of the Nicaraguan assistance program strained the resources of your office?

GENERAL BECKINGTON: The Nicaraguan program has definitely placed an additional burden on my regional office in Tegucigalpa, Honduras. Three of my direct hire audit staff have been diverted and ten Price Waterhouse contract auditors under Regional Inspector General direction have been employed full-time since April to watch over this highly vulnerable program. Just recently, Congressman Panetta, before the House Foreign Affairs Committee, commended the Agency for establishing good accountability over this highly sensitive program--giving credit to the Office of Inspector General oversight.

SENATOR INOUYE: Last year the Committee recommended in its report a new interim level of 240 full-time employees be achieved over a 2-year period.

What level of funding do you feel is necessary to achieve this level by the end of fiscal year 1989?

GENERAL BECKINGTON: The 240 FTE level will require $30.143 million.

SENATOR INOUYE: Last month the General Accounting Office released a report entitled: Overseas Support: Current U.S. Administrative Support System Is Too Complicated. The report is critical of the State Department's failure to provide appropriate levels of experienced administrative personnel in countries with significant A.I.D. missions.

Are you aware of this report and do you agree that there is a severe shortage of experienced State Department administrative personnel in countries with significant A.I.D. missions? If so, is any effort being made to correct this situation?

GENERAL BECKINGTON: I am aware of the report and the problems in the Department's administrative support systems overseas. I am not familiar with efforts being taken to correct the shortage of personnel problem.

## EL SALVADOR

SENATOR INOUYE: Last month your office provided me with an audit report on how U.S. relief funds were used in the aftermath of the October, 1986, San Salvador earthquake. While your report notes several areas of concern, you make the following statement in an accompanying letter: "It is my opinion that the A.I.D. Mission in El Salvador is to be commended overall for the skill and professionalism which characterized its handling of this U.S. relief effort."

Could you please share with this Subcommittee some of your observations on how A.I.D. managed this disaster?

GENERAL BECKINGTON: The October 10, 1986 earthquake struck the capital of El Salvador, San Salvador, killing or injuring over 21,000 people and severely damaging the city's infrastructure. The U.S. Government responded with $137 million in relief assistance. Our audit of this program showed that the A.I.D. mission in San Salvador had effectively managed U.S. Government resources made available for earthquake relief, rehabilitation and reconstruction. The mission was quick to respond with substantial quantities of food and relief supplies. Effective controls were established, for example, by using contractors to account for the receipt and distribution of relief supplies. Relief expenditures were supported with adequate documentation and commodities were used within established eligibility criteria. As implementation problems were identified, the A.I.D. mission moved quickly to correct them without curtailing unnecessarily the flow assistance to earthquake victims. Considering the speed with which the program had to be implemented and the earthquake's disruption and destruction of the A.I.D. mission itself, we found the program was relatively well-managed. I personally commended the A.I.D mission staff for their fine job.

SENATOR INOUYE: What lessons can we apply from this experience to better A.I.D.'s handling of future disasters?

GENERAL BECKINGTON: First, in emergency, quick-disbursing programs like the El Salvador Earthquake Program, an upfront commitment to accountability goes a long way to prevent waste and abuse. Second, prompt identification and correction of accountability problems as the problems arise are essential. Thirdly, spending resources on accountability--both within A.I.D. and hiring contractors--not only prevents abuse and waste but contributes to the program's success. The A.I.D. mission in El Salvador recognized these three points and took action.

## COSTA RICA

SENATOR INOUYE: What, if any, additional acts of alleged misconduct have you uncovered in the A.I.D. mission in Costa Rica, other than those reported in your manager-to-manager letter of October 9, 1987?

GENERAL BECKINGTON: One additional alleged abuse of the A.I.D. participant training program has been brought to our attention. The daughter of a former foreign minister of the Government of Costa Rica was awarded a scholarship for several thousand dollars to fund the cost of her schooling as a harp major at the Cleveland Institute of Music.

SENATOR INOUYE: How responsive has the Government of Costa Rica been to your requests for information and/or assistance in your investigation?

GENERAL BECKINGTON: During the course of the field work which prompted my manager-to-manager letter, as well as an audit report, officials of the Government of Costa Rica were always cooperative. It must be remembered that the manager-to-manager letter primarily addressed internal A.I.D. mission management issues and practices.

SENATOR INOUYE: Does the Costa Rican Government plan to take any action against any of its nationals implicated in the A.I.D. mission scandal? If so, what action is being contemplated or is now underway?

GENERAL BECKINGTON: I am not aware of any action planned or taken by the Costa Rican Government on the problems we found.

SENATOR INOUYE: Is either your office or the Justice Department looking into ways in which the funds incorrectly disbursed by the U.S. A.I.D. Mission Director in Costa Rica might be recovered?

GENERAL BECKINGTON: Recovery of funds is not normally an available remedy for instances of poor management or infractions of this type. Eventually, some recoveries may be possible, such as those related to certain questioned scholarships.

SENATOR INOUYE: Please provide this committee with a confidential listing of all known assets held in the United States by individuals or organizations implicated in the Costa Rican/A.I.D. scandal.

GENERAL BECKINGTON: The audit work done in this matter did not develop this type of information.

SENATOR INOUYE: What is the current status of Mr. Chaij, the former A.I.D. Mission Director in Costa Rica?

GENERAL BECKINGTON: Mr. Chaij has been reassigned through the normal foreign service assignment process to Washington, D.C. He is presently assigned to the Department of State on a non-reimbursable detail.

SENATOR INOUYE: Is he continuing to receive any benefits or remuneration from the United States Government? If so, how much and during what time period?

GENERAL BECKINGTON: Yes, as a Foreign Service officer with the rank of Minister Counselor his current salary is $75,500 per year. During the period covered by the manager-to-manager letter he received the following bonus performance awards: FY 1982, $10,000 FS performance award; FY 1983, $4,500 FS performance award; FY 1984, $10,000 Presidential Meritorious Service Award; FY 1985, $10,000 FS performance award; FY 1986, $10,000 FS performance award; FY 1987, $8,500 FS performance award. I am advised that payment of the FY 1987 award has not been made.

## GENERAL

SENATOR INOUYE: Can individuals dismissed by A.I.D. for administrative infractions or found guilty of criminal wrongdoing ever be reemployed by the Agency for International Development? If so, under what conditions?

GENERAL BECKINGTON: Such individuals may apply for employment with A.I.D. or any other Agency of the Federal Government. OPM employment standards must be met, and the prior conduct would be considered in establishing the suitability of the individual for Government service.

SENATOR INOUYE: What becomes of their security clearances?

GENERAL BECKINGTON: When an individual is indicted, the security clearance is suspended. When an individual is convicted of a crime or administratively dismissed, the security clearance is revoked.

## COSTA RICA

SENATOR INOUYE: What steps have been taken subsequent to the allegations made against the A.I.D. officials in Costa Rica to tighten auditing procedures at the mission?

GENERAL BECKINGTON:. The Agency made an extensive review of the issues described in my manager-to-manager letter and tightened up several areas of management in the A.I.D. mission in Costa Rica, including management of local currency.

SENATOR INOUYE: Have these new procedures been instituted elsewhere within A.I.D., particularly those involving the management of local currency accounts?

GENERAL BECKINGTON: The Agency formed a task force to review

Agency policy over local currency. The task force developed an issue paper describing the Agency's position on several local currency problem areas. The task force did not recommend any changes to management of local currency by A.I.D. but mostly reaffirmed the Agency's policy and prior management approach to local currency. Consequently, as of this date I am not aware of any new procedures or other changes in A.I.D. management of local currency.

## HONDURAS

SENATOR INOUYE: I understand that the Tegucigalpa Audit Office has authorized staff sufficient to audit only about 40 percent of the projects and activities identified in the prioritized assistance program. The office has a staff of 24 and is in need of an additional 3 auditors according to the most recent Workload Assessment provided by your office. The Tegucigalpa Audit office is responsible for 16 countries in Central America, South America and the Caribbean.

In view of the importance of Central America to United States foreign policy and the numerous allegations of fraud and mismanagement which have emerged in recent years, can you tell the Subcommittee why this required increase in audit staff has not taken place long ago?

GENERAL BECKINGTON: Due to continuing budget constraints, both the Agency and OMB have been very reluctant to increase the overall staffing of the A.I.D. Inspector General. Further, the Department of State refuses to approve any increases to any of the A.I.D. Regional Inspector General Offices overseas. Therefore, we have not been able to transfer any of our existing Washington, D.C., based resources to our regional office in Tegucigalpa, Honduras.

## EGYPT

SENATOR INOUYE: The Cairo Audit Office has geographic responsibility for the assistance program in Egypt. In terms of dollar assistance, this program is the largest of the seven regional offices, accounting for $7.7 billion provided through 93 active projects. A recent workload assessment by your office showed that the 14 auditors in Cairo were sufficient to audit only about 40 percent of the projects and activities being carried out in the prioritized program in Egypt. I understand that the 93 A.I.D. projects in Egypt account for 28 percent of the Agency's total assistance program worldwide.

Will the Cairo Audit Office be getting the additional four staff which your assessors calculated were needed to make up the shortfall in audit coverage in Egypt?

GENERAL BECKINGTON: Of the 15 FTE additional staff authorized by Congress in FY 1988, two were allotted to the Cairo office. If Congress approves the overall increase to the 240 FTE level in FY 1989, two additional auditors will be allotted to the Cairo office, adding a total of four auditors to the Egypt program. However, the Department of State has disapproved our requests to increase the staffing of any of our overseas Regional Inspector General offices, including Cairo, Egypt. Therefore, we still are not able to close the gap in audit coverage to the highly vulnerable Egypt program.

## GENERAL QUESTIONS

SENATOR INOUYE: Has your office ever been asked to look into the application of A.I.D.'s "Nationality Rule" and the award of Agency contracts to non-American companies? If so, what were your conclusions?

GENERAL BECKINGTON: No, I do not recall any specific request to look into this area. We do, during routine audits, review and sometimes find problems in this area.

SENATOR INOUYE: Please provide this Subcommittee with an annotated list of all A.I.D. contracts over $50,000 which have gone to non-American companies.

GENERAL BECKINGTON: The requested listing is attached.

(CLERK's NOTE: Due to the size, the list of AID Contracts over $50,000 will be kept in the subcommittee files.)

SENATOR INOUYE: Please provide this Subcommittee with a list of all complaints filed with your office or registered with A.I.D. by private citizens alleging that the Agency violated its nationality rule in the awarding of Agency contracts.

GENERAL BECKINGTON: We are working with the Agency procurement office and a list of the complaints will be provided as soon as it is received.

## EXPANDED OVERSEAS STAFF

SENATOR INOUYE: An April, 1986, Workload Assessment prepared by your office concluded that the Inspector General's Office does "not have the resources to perform financial audits." I understand that your office relies "heavily" on contracts with other Federal agencies such as the Defense Contract Audit Agency (DCAA) and non-Federal auditors to perform audits.

How much is the Agency now spending on non-Federal auditors and is this the most cost-effective means of providing audit services to your office?

GENERAL BECKINGTON: Currently the Agency is spending about $550,000 a year on non-Federal auditors. I am glad to report that Agency managers are rapidly realizing the need for and benefit received from non-Federal auditors and the request for this type of audit service is rapidly expanding. We have found that the use of non-Federal auditors to make financial and compliance audits is cost effective. I might add that we use extensively the overseas affiliates of major, U.S.-based certified public accounting firms. These firms possess the minimal, professional audit capabilities required for audits of U.S. government grants and contracts and, at the same time, we are able to obtain the much lower pay scale paid in lesser developed nations. I would also like to add that the Inspector General Act requires my office to closely monitor the quality of non-Federal audits to ensure these audits meet established professional government audit standards. The number of non-Federal audits in process is limited to the number of my staff that can be devoted to monitoring audit quality. Experience has shown that overseas affiliates of U.S. firms are not that experienced in auditing Federal grants and contracts and require close, time-consuming supervision.

## QUESTIONS SUBMITTED BY SENATOR DECONCINI

### SHAARE ZEDEK HOSPITAL IN ISRAEL

SENATOR DECONCINI: The activities sponsored under the American Schools and Hospitals Abroad Program are particularly valuable and effective because they provide immediate quality of life benefits that everyone recognizes as important to large numbers of people. Also, as focused as they are on the truly needy, many of them being ill and injured children, they serve as a very cost-effective means of demonstrating the commitment the people of the United States have to basic human values such as compassion and the importance of life, health, and education. Taxpayers see their money going directly to people in need rather than to huge white elephant projects or wasteful bureaucracies.

The Shaare Zedek Hospital in Jerusalem is a particularly significant example of how cost-effective and pervasive the benefits of these grants can be. The outstanding achievements of this hospital have benefited Moslem, Jewish, Catholic and Protestant residents of Jerusalem. In fact, Shaare Zedek Hospital is the leading provider of health care services to the non-Jewish sectors of Israel's population. This is extremely important in light of the volatility of the Middle East. I understand that an application for A.I.D./ASHA funding of $1,955,000 is currently under consideration. Could you please provide the status of this request?

MR. SANTOS: The Shaare Zedek Hospital is one of 77 applicants requesting $105 million this fiscal year. Since our budget is $40 million, not all applicants can be assisted. We regret we cannot assist in completing the top floor of the hospital to serve as a geriatric and chronic care center. We have been pleased over the past 10 years to have provided $3.8 million to improve the facilities and equipment of the hospital.

### ESPERANCA

SENATOR DECONCINI: Another example of a relatively low cost and high payoff program under ASHA is Esperanca. This program epitomizes the way in which micro-enterprise concepts can be applied to bring United States expertise to the people that most need it. Through this program, and for relatively little money, we are able to bring basic medical care to children along the Amazon -- the kind of medical care that transforms the lives of people that are in desperate need of the expertise of doctors. Volunteer doctors involved in these programs truly represent the American spirit. I understand that a multi-year grant is under consideration for Esperanca, in the amount of $950,000. Could you please provide the status of this request?

MR SANTOS: We will be granting $550,000 in the coming months to strengthen Esperanca's medical programs in the central Amazon River Valley.

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### BUREAU FOR PRIVATE ENTERPRISE

SENATOR KASTEN: Mrs. Peden, this Administration has tried to emphasize the private sector in its development approach. Of course your Bureau is the lead in this, but I am wondering if any success has been achieved in changing the basic mentality of the agency as a whole, especially its employees, away from the strictly statist approach to one which recognizes that private sector approaches are required. Do you think that such progress has been made?

MRS. PEDEN: While we have never collected baseline data on agency attitudes regarding the use of the private sector, there is sufficient evidence to conclude that substantial progress has been made. A review of A.I.D.'s Congressional Presentations from Fiscal Years 1980 through 1989 clearly indicates that the agency is moving at an accelerating pace toward a private sector, market-based orientation in its programs. The regional bureaus all consider private sector programming an important element of their portfolios. Africa missions have been charged with developing private sector-led growth strategies. A recent Asia and Near East Bureau conference on Trade and Investment concluded that every A.I.D.-recipient country in that region had program elements aimed at policy reform, investment and export promotion, or other kinds of assistance to stimulate business development and growth. The Latin American and Caribbean Bureau has long had a leadership role in assistance to the private sector.

However, the Bureau for Private Enterprise recognizes that it has a major catalytic role to play to keep this progress on track. Therefore, we are continuing our efforts to change A.I.D. programming through a training program for A.I.D. employees, through innovative projects in our Revolving Fund, and through our extensive mission support activities.

SENATOR KASTEN: Mrs. Peden, in your prepared statement, you describe a new initiative to convert the Revolving Fund direct loan program into a guarantee authority. Can you give us some examples of how this new authority would be used and why it would be an improvement over the existing loan program?

MRS. PEDEN: The new authority would follow the current Revolving Fund guidelines and be governed by all of the original legislative criteria, including financing of projects which are innovative, aid small businesses, and serve as models for replication. It would be an improvement over the existing loan program in allowing A.I.D. significant increased leverage (up to $100 million with a reserve of only $12.5 million) with which to perform developmentally desirable projects and help A.I.D. missions demonstrate the feasibility of mobilizing local private capital and engaging the indigenous private sector in development.

SENATOR KASTEN: Please give examples of projects which your Bureau has funded which have served as successful demonstration projects for the rest of A.I.D.

MRS. PEDEN: Our loan to Kenya Commercial Bank led to a large mission follow-on project also using the commercial banking system to serve smaller entrepreneurs. In Thailand, our loan to Thai Danu Bank also resulted in a large mission follow-on project.

In addition, all projects which are co-financed or co-designed with missions have a high potential for becoming demonstration projects. In FY 1987, five of the seven projects were co-designed and co-financed with missions, and in FY 1988 we expect all projects to fit this category.

SENATOR KASTEN: Mrs. Peden, one of the features of the private sector program is to make loans on terms closer to commercial rates and repayment schedules than is the case for regular A.I.D. projects. Given the fact that you charge higher interest rates for your projects and require shorter repayments, what has been the record for your loans to date? For example, have you had any loan defaults?

MRS. PEDEN: Although the Revolving Fund loss experience has been quite good, there is no question that Revolving Fund investments are risky and some defaults are to be expected. However, we believe that the fact our loans are made at market rates does not increase the likelihood of default. On the contrary, we feel that a borrower that is paying a market interest rate considers repayment a priority; this is not necessarily the case with the recipient of a concessional loan. From a developmental standpoint, we also support non-concessional lending because the market is the most efficient and effective allocator of recourses.

As to actual loss experience, the Revolving Fund has a portfolio of $60.5 million involving 30 projects in 14 countries. The Fund has experienced one direct loan default in the amount of $500,000 (International Multifoods). In addition, there have been 10 subloan defaults under the facility with Far East Bank and Trust (Philippines) which, if no recoveries are realized, will result in losses to the Fund in the amount of $221,000. However, collection procedures are continuing for the subloan defaults and it is unclear what the likely actual loss to the Fund may be. Nevertheless, even without any recoveries in the subloan defaults, the loss rate is on 1-2 percent.

## A.I.D. RESPONSE TIME TO LOCUST PROBLEM IN AFRICA

SENATOR KASTEN: Mrs. Taft, I, too, am concerned by the lack of action by your office with respect to the locust problem in Africa. There is a sense that you are, in essence, hoarding your funds. I think that this committee needs to have detailed information on why you are so slow to react to this problem -- you may provide such an explanation for the record if you wish.

MRS. TAFT: OFDA has neither been inactive regarding the locust problem in Africa, nor has it been "hoarding" its funds.

During FY 1988, OFDA responded quickly to disaster declarations in Morocco, Tunisia, Algeria, and Senegal, allocating more than $3.06 million in pesticides, technical assistance, operational support, and communications equipment. In addition, our funding for disasters declared for sub-Saharan countries in FY 1987, which required continued support in 1988, totalled $20.7 million. Since November 1987, the Africa Bureau has had the lead responsibility for dealing with the locust situation in the sub-Sahara and has programmed over $8.4 million in assistance.

OFDA continues to stand ready to supplement emergency control operations in sub-Saharan countries; however, to do so we would need to exercise our borrowing authority. As of April 5, OFDA had fully expended or programmed funds under the regular International Disaster Assistance account, and we have had to initiate borrowing for $13.1 million for other urgent disasters.

Our record of disaster commitments thus far in FY 1988 clearly demonstrates that OFDA is not "hoarding" its funds.

## IMPACT OF OMB BUDGET REQUEST

SENATOR KASTEN: General Beckington, what would be the impact on the program this subcommittee initiated last year to enhance your capabilities if we adopted the OMB budget for your function?

GENERAL BECKINGTON: The program to increase the staffing of the A.I.D. IG would come to a halt and in fact, our FY 1989 operations will be reduced to a level somewhat below current operations. The FY 1989 request will permit a level of operations similar to the years prior to 1988.

## INCREASING OVERSEAS STAFFING

SENATOR KASTEN: I understand that you have requested permission to place additional people overseas, an action consistent with the initiative of this subcommittee, and I am wondering what is the status of that request?

GENERAL BECKINGTON: The Congress provided for an additional 15 positions for the Inspector General in FY 1988. Based on our assessment of our workload, we decided to place eight of these positions in our overseas Regional offices. In April this year we asked the Secretary of State to approve increases of three additional positions in Nairobi, Kenya, two in Dakar, Senegal, two in Cairo, Egypt, and one in Tegucigalpa, Honduras. We have yet to receive a response to this request.

## STATE DEPARTMENT FUNDING OF A.I.D. SECURITY

SENATOR KASTEN: As you may remember, this subcommittee expressed some concern with a decision which grew out of the Inman report on diplomatic security funding about A.I.D.'s ability to get adequate funding for its needs for security out of the State Department. Congress has provided substantial amounts for the Diplomatic Security Act since fiscal year 1985. How much of this funding have you received and how does the amount you've received compare to the amount you requested?

GENERAL BECKINGTON: A.I.D. requested $96.7 for security related programs for the FY 1986-1990 time period. Department of State has provided $6.3 million for the FY 1986-1987 time period, nothing in FY 1988 and no security funding is included in the FY 1989 Presidential budget. I might add that the Department of State has requested $7.5 million from A.I.D. in FY 1988 to be fund local security guards.

## ABUSES IN COSTA RICA AID PROGRAM

SENATOR KASTEN: General Beckington, I have a few questions with regard to the situation you uncovered in Costa Rica. It is difficult to get into all of the mismanagement items you uncovered without having a special hearing, but first, I want to ask you about what, in your opinion, went wrong down there that caused these problems?

GENERAL BECKINGTON: Several factors contributed to the situation we found to exist in the Costa Rica aid program. First, A.I.D. has a highly decentralized management system which gives a field mission director a high degree of discretionary authority. This discretionary authority coupled with a lack of Agency policy guidance over the control and use of local currency permitted the program abuses to occur. Lack of effective, in-depth oversight by A.I.D. Washington permitted the abuses to continue and proliferate.

SENATOR KASTEN: Do you believe that the Agency, as a result of this situation, has now instituted policy reforms so that this kind of thing cannot happen again in other countries?

GENERAL BECKINGTON: The Costa Rica experience has prompted an intensive, on-going review within the Agency of issues related to local currency. The Agency has issued supplemental guidance on tighter accountability for local currency -- guidance essentially reminding field missions of the need for heightened awareness of the vulnerabilities associated with local currency use. No action has yet been taken on the critical issue of ownership of local currency, so that it is not possible for me to conclude with any assurance that a repetition of the Costa Rica experience could not occur.

SENATOR KASTEN: Has the management of A.I.D. consulted with you at all on what suggestions you might have in trying to ensure that this situation does not happen again?

GENERAL BECKINGTON: Yes, the Inspector General has been actively involved in an advisory capacity in the Agency's review of the issues raised by the Costa Rica situation. I might add that proposed solutions and corrective actions are controversial and my views represent a minority position at this juncture.

SENATOR KASTEN: A number of people, including the two or three former ambassadors have severely criticized your manager-to-manager letter, although in their criticisms they are not very specific. Have you found any of the criticism leveled at your report to be helpful -- would you change any of your report according to what you've learned subsequently?

GENERAL BECKINGTON: No, nothing has come to my attention from whatever source, inside or outside the Agency, which in my judgment would cause me to withdraw or modify any of the significant facts or opinions set forth in my October 9, 1987, memo to the Acting Administrator.

SENATOR KASTEN: In a letter he sent to the Administrator of A.I.D., former Ambassador Lewis Tambs attempts to answer one of the charges made in your manager-to-manager letter with respect to one of the questionable scholarships by stating that "The son of Frederico Vargas, the young man met the criteria and from a diplomatic point of view, the fellow should be viewed as an added inducement to get Frederico Vargas to accept the Ambassadorship to the United States." How would you describe that, and is that considered a proper use of A.I.D. scholarship funding?

GENERAL BECKINGTON: Ambassador Tambs statement on its face seems to imply that a form of financial inducement was considered necessary to prompt the senior Vargas to accept his country's ambassadorship to the United States. The use of A.I.D. scholarship funds for this purpose was wrong--a misuse of A.I.D. appropriations. As you will recall, Senator, the junior Vargas' application for the training was not processed through the program's selection criteria or any other formal process. A review by the Agency subsequent to my letter found that the young man did not quality for any program.

## REAGAN ADMINISTRATION'S BUDGET SUPPORT TO INSPECTORS GENERAL

SENATOR KASTEN: Late last year, the Deputy OMB Director sent a memorandum to members of the President's Council on Integrity and Efficiency in which he bragged about the Reagan Administration's budgets for Inspectors General in which he said that outlays had more than doubled and that full-time equivalents had gone up over 40 percent. What has happened to your particular office during this period -- have your outlays more than doubled and has your FTE gone up over 41 percent?

GENERAL BECKINGTON: The A.I.D. Inspector General has not received these increases in FTE and funding as have the other statutory IG's. In fact, the FTE of the A.I.D. IG has gone down 15 percent during this time period.

## A.I.D./AMERICAN SCHOOLS AND HOSPITALS ABROAD (ASHA) PROGRAM

SENATOR KASTEN: Mr. Santos, you are being encouraged by many to provide increased assistance to the American University in Beirut. There is some concern that we don't really know what is happening on the ground in that institution, and, as you know, there have been reports that radical elements have exercised quite a bit of control. What is your assessment of what is happening at that university currently, and where do you get your information?

MR. SANTOS: The American University of Beirut (AUB) functions in a nearly normal manner according to both university officials and Foreign Service Nationals from the U.S. Mission who have been able to visit the campus over the past year. We believe the reports to which you refer pre-date February 1987, the period prior to the time when Syria became responsible for and improved security in West Beirut where AUB is located.

AUB has over 5,000 students enrolled. Demand for its American-style curriculum is high. It has received more than 10,000 applications for the 1,000 positions for the upcoming fall term. AUB students continue to perform well in exams. For example, AUB students in the U.S. Foreign Medical Graduate Exam achieved an average pass rate of 66 percent, as against an overall average world pass rate of 28 percent.

AUB's greatest problem is insufficient revenue from tuition and fees, both of which are very low in dollar terms as the result of the devaluation in the Lebanese pound. Tuition and fees cover about five percent of the cost of education and hospitalization, a low percentage which can only jeopardize future AUB efforts to obtain individual, foundation, business and government support. As AUB seeks to address this problem, we should be mindful that the battle to determine Lebanon's cultural and political orientation continues and that AUB, which has been an independent center of diversity and academic freedom in the Near East for over a century, is the kind of institution we hope the Lebanese will continue to value.

## FUNDING RECOMMENDATIONS FOR CERTAIN INSTITUTIONS

SENATOR KASTEN: Both Senate and House Committees in their respective reports accompanying FY 1988 legislation made certain recommendations that various institutions should receive funds from your program. Have you complied with those recommendations in the recommendations your office has made to the Administrator for funding this year?

MR. SANTOS: The recommendations in those reports have been taken into account in formulating recommendations for the Administrator.

## HOUSING GUARANTY

SENATOR KASTEN: There have been reports in the Jamaica press that A.I.D. is supporting housing projects on "captured" lands -- i.e., squatters. Are those reports true?

MR. KIMM: Reports in the Jamaica press have referred to property owned by a U.S. citizen. A.I.D. has never been involved with any property owned by a U.S. citizen.

SENATOR KASTEN: How do you know for sure?

MR. KIMM: Under existing A.I.D. shelter programs in Jamaica, A.I.D. reviews all projects eligible for reimbursements. The upgrading and finance of shelter activities which have taken place on the property owned by the U.S. citizen have never been presented to A.I.D. for reimbursement.

## QUESTIONS SUBMITTED BY SENATOR D'AMATO

### HOST GOVERNMENT CONTRIBUTIONS

SENATOR D'AMATO: Last year, you testified that most host governments were failing to make their agreed upon contributions to an A.I.D. development project. In your statement this year, you do not site this as a problem. Is this no longer a problem? If so, what has been done to correct it?

GENERAL BECKINGTON: Inspector General audits continue to report the same kinds of problems associated with host country contributions which I described in my testimony before this Subcommittee a year ago. At about the time of that testimony last year I outlined my concerns to the Agency drawing from a long line of audit reports.

In essence my concern with the present and historic process the Agency employs is that the United States provides its contributions promptly and on time. The disbursement system used by A.I.D. does not require host governments to share in the cost of a project as projects are implemented. A.I.D. usually pays first and host governments are expected to provide their contribution during later or final years. We do not require contemporaneous performance by the host country on its commitment. Thus, A.I.D. finds itself too frequently without leverage to encourage host country adherence to its agreement. The United States has performed, the host country has not. Project goals are compromised, reduced or unrealized. The Agency (Bureau for Program and Policy Coordination) is still considering my referral.

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### AMERICAN UNIVERSITY OF BEIRUT AND BEIRUT UNIVERSITY COLLEGE

SENATOR D'AMATO: Last year, we discussed ASHA's plans for providing funds for American University of Beirut and Beirut University College. In light of the continued unrest in Beirut, what are ASHA's future plans for funding these institutions?

MR. SANTOS: In FY 1988, we are providing $6.5 million to American University of Beirut (AUB) and $350,000 to Beirut University College (BUC). Future assistance will depend on the pool of applicants and ASHA budget. With regard to AUB, we would like to note that its greatest problem is insufficient revenue from tuition and fees, both of which are very low in dollar terms as the result of the devaluation in the Lebanese pound. Tuition and fees cover about five percent of the cost of education and hospitalization, a low percentage which can only jeopardize future AUB efforts to obtain individual, foundation, business and government support. As AUB seeks to address this problem, we should be mindful that the battle to determine Lebanon's cultural and political orientation continues and that AUB, which has been an independent center of diversity and academic freedom for over a century, is the kind of institution we hope the Lebanese will continue to value.

## SUBCOMMITTEE RECESS

Senator INOUYE. The subcommittee will now stand in recess until 10 a.m., Tuesday, May 17, and at that time we will receive testimony from selected administration witnesses on the functioning of the Peace Corps, the African Development Foundation, and the Inter-American Foundation.

Thank you very much.

[Whereupon, at 12 noon, Thursday, May 12, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, May 17, 1988.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

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TUESDAY, MAY 17, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:04 a.m., in room S–128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Lautenberg, and D'Amato.

## PEACE CORPS

### STATEMENT OF LORET MILLER RUPPE, DIRECTOR, PEACE CORPS

### OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order. This morning we will continue our examination of the President's request for fiscal year 1989 funding for foreign assistance.

Today we will turn our attention to the Peace Corps, the African Development Foundation, and the Inter-American Foundation. It is the responsibility of this subcommittee to oversee the management of these institutions and to examine the impact of their operations on American foreign policy.

### INTRODUCTION OF WITNESSES

With us today is the Hon. Loret Miller Ruppe, Director of the Peace Corps, the Hon. Leonard H. Robinson, Jr., president of the African Development Foundation, and the Hon. Deborah Szekeley, president of the Inter-American Foundation.

The subcommittee thanks you all for joining us this morning. We have your prepared statements, and I can assure you that the full statement will be made part of the record. It is always good to have you with us, Ms. Ruppe.

### VOLUNTEER EXPANSION

Ms. RUPPE. Thank you, Mr. Chairman. It is a real privilege to be here and to be reporting to you, and to Senator Kasten. I'm pleased to be here to tell you that the Peace Corps is moving forward on the congressionally mandated expansion to 10,000 volunteers.

In 1988, with the increased funding that you provided, we were able to increase our volunteer level 25 percent over last year's level. We feel that the plan is in place that gives proper staff support and strong programming.

At the end of this fiscal year we expect to have 6,600 volunteers serving in 67 developing countries worldwide. In this year we are going into five new countries, including a reentry into Pakistan. Pakistan has asked us for English teacher trainers, which we will be providing.

### PEACE CORPS PROGRAM IN CHINA

We also, as you have heard, have begun working with the People's Republic of China to develop a Peace Corps program in that nation. Just this past week I had the opportunity to meet with a delegation at our headquarters, and they have now extended a formal invitation for Peace Corps senior staff to come to China for further information exchange the third week in June.

So, Mr. Chairman, Peace Corps volunteers and staff and the returned volunteers who work across America in development education and leadership roles in international relations are all united in our one common goal to live up to the mandates that you and the U.S. Senate and the House of Representatives have given us.

### INTEGRATED HEALTH CARE TEAM PROGRAM

One of the programs that has created a great deal of excitement is our integrated health care team that you called for last year in your appropriations bill report. I am pleased to tell you that I have brought a design model for that program with me today, which I would like to submit for the record, if I might.

Senator INOUYE. Without objection, so ordered.

[The information follows:]

# REPORT TO THE DIRECTOR

## Plan for the Establishment of a Pilot Program of Integrated Health Teams to Train Host Country Nationals in Primary Health Care in Developing Countries

Outline

I. Introduction and Background

II. Approach

   A. Needs Assessment
   B. Project Design
   C. Project Implementation
   D. Monitoring and Evaluation

III. Peace Corps Operations

IV. Attachment

   A. Examples of Needs of Assessment Information

   B. Current Status: Programming for Healtn Professionals

   C. Example of Team Approach Utilizing Applied Research and Teaching in a Primary Health Care Context

## I. Introduction and Background - Rationale for Peace Corps Involvement

As the year 2000 rapidly approaches, developing nations are examining their levels of success (or failure) in attaining this universal goal. Many nations are finding that the PHC systems require capabilities and resources beyond their reach, particularly in areas of management and staff supervision. In support of these efforts it is very timely for Peace Corps to join with nations in the assessment of national PHC priorities and health manpower capabilities that countries will need over the next 20 years in order to provide "health for all by the year 2000.

In accordance with the language of the Foreign Assistance and Related 1988 Programs Appropriation Bill, Peace Corps is establishing a plan to design, develop, implement and evaluate an Integrated Health Team Pilot Program utilizing doctors, nurses, dentists and other qualified medical personnel to work with host country nationals in the provision of Primary Health Care in two countries of the developing world.

In endorsing this initiative Peace Corps, with the United States Congress supports the efforts of the participants of the International Conference on Primary Health Care, (PHC). Participating Nations who attended the conference held in Alma-Ata, 1978, resolved that "all governments have a responsibility for the health of their people which can only be fulfilled by the provision of adequate health and social measures." These countries agreed that the social target of governments, international organizations, and world communities would be the attainment of health for all peoples by the year 2000. They also stated that a national system of primary health care would be key to the attainment of this goal. An agreed upon definition of Primary Health Care was accepted:

> "Primary health care is essential health care based on practical, scientifically sound and socially acceptable methods and technology made universally accessible to individuals and families in the community through their full participation and at a cost that the community and country can afford to maintain at every stage of their development in the spirit of self-reliance and self-determination. It forms an integral part both of the country's health

> system, of which it is the central function and main focus, and of the overall social and economic development of the community".

Country assessments will be conducted in a series of select countries in order to identify health manpower needs and capabilities at various levels of the Primary Health Care System from national to local levels. (See attachment A for details of Needs Assessment).

## II. Approach

The pilot health team programs will be modeled after the highly successful Peace Corps Africa Food Systems Initiative (AFSI); a long-term, multidisciplinary approach to solving food availability and income generation problems in targeted African countries. This approach includes four phases: needs assessment; project design; project implementation and; project mointoring. The first two phases of the approach will require the use of multidisciplinary teams to conduct the needs assessment and project design. Peace Corps will conduct needs assessments in four or five countries in order to identify two pilot countries for the Health Team Pilots.

In addition, the selection of countries as pilot projects will be based upon predetermined country selection criteria. For example, the criteria may include: the Ministry of Health which indicates strong political will to implement a Primary Health Care system to reach the rural poor; countries that have Primary Health Care system in place; availability of Primary Health Care personnel (professionals and/or traditional healers) resources; countries which have professional health institutions which include a community health component, and; countries with identifiable needs in areas such as management, informations systems, and epidemiology training.

### A. Needs Assessments:

The first step will be to conduct a needs assessment in which the team will:

- Clarify project goals.

- Identify health problems as perceived at national and local levels.
- Examine current strategies to address these problems (ideal versus real program operations).
- Highlight health manpower needs (short term and long term) as part of these strategies.
- Examine at national health policies and appropriate strategies for Volunteer interventions.

On a preliminary basis, assessments will be conducted in Lesotho, and Papua New Guinea. Other countries to be considered are Guatemala, Togo, Malawi, the Dominican Republic, Fiji, and the Central African Republic. (See attachment B for current status of Programming for Health Professionals.) The assessment team will include a team leader who has strong team building skills and is familiar with Peace Corps programming and training; health professionals with Primary Health Care experience in developing countries; OTAPS health sector and Variable Length Volunteer staff; Ministry of Health representatives from Preventative Health Services and Health Manpower Development Divisions.

## B. Project Design

A design team will be sent to those countries which meet the country selection criteria based on information gained from the needs assessment. This team will arrive within two months of the assessment and will work with the Ministry of Health to verify information, define institutional relationships, determine geographic and professional parameters, meet with ministry officials to produce a project plan for each project identified.

Each pilot project will be guided by the project plan (written and agreed upon by Peace Corps and Ministry of Health Officials) which outlines project objectives, identifies the need for health professional input over at least five year time span and specifics monitoring indicators to assess project results over the life of the project.

## C. Project Implementation

The implementation of the health team pilot projects will begin in two countries that have been selected from the needs assessment according to country selection criteria.

The goal of each project will be to strengthen the national Primary Health Care System through an integrated team approach (PCV Health professionals and Ministry Health Professional counterparts). Examples of Peace Corps health team input might include the following placements

- Primary Health Care manager, Health Information Systems Experts and epidemiologist at the National level; a team of nurses and local medical students who to develop a curriculum and train community level village health workers.

## D. Monitoring and Evaluation

There are a number of steps Peace Corps will take to ensure appropriate and adequate monitoring of the pilot projects:

1) Peace Corps will retain a medical doctor with experience in the design and implementation of development programs to administer the program from Peace Corps/ Washington.

2) A Washington Advisory Group will be established to consult on programming and administrative issues. This Group will consist of representatives of private voluntary agencies such as CARE, U.S. Government agencies, such as USAID and others who have had experience in fielding and placing professional health workers.

3) In each pilot country a local advisory group of representatives from the ministry of health, Peace Corps, and private voluntary organizations will advise on the development of the projects and will take part in the on-going monitoring. This group will assist in the identification of local donors (public and private) for needed equipment and supplies.

The following monitoring tools to assess the on-going development of Peace Corps' effort will be established for both program operations and project effectiveness:

1) Each Peace Corps pilot country will develop a monitoring system to look at Peace Corps operations in cooperation with the Medical Coordinator in PC/Washington. The system will address issues related to recruitment, training, Volunteer support, length of service and attrition. The monitoring system will have established reporting requirements.

2) For each project, monitoring indicators (number of people trained, materials developed) will be established in order to measure project effectiveness. The working advisory group in-country will establish the project reporting system for the Ministry and Peace Corps.

In addition to the above, on a yearly basis a team of outside health professional experts and local Ministry professionals would assess all components of the country project. The annual assessment would include: document review; interviews of health staff and beneficiaries at all levels; and record review. The assessment team would also review monitoring indicators and make recommendations of project refocus (skills and activities), if needed. A formal evaluation will be conducted to assess changes in health status and the health care delivery system.

## III. Peace Corps Operations

In order to carry out the Health Team Pilot Program, Peace Corps' present capabilities will need to be considerably enhanced. Peace Corps will have to consider some special issues regarding the placement of the Health Team Volunteers including:

- Special Administrative support needs of highly skilled technical personnel
- Special communication and collegial needs in technical fields

In order to address some of these issues and others Peace Corps will need to support the following enhancements:

- appointment of medical coordinator in Washington
- establish a role for Host Country Senior Medical Officer in Local Advisory Group
- establishment of professional organization networks
- promotion of agreement with U.S. Universities and Private sector resources

All of these efforts will provide Peace Corps, the Volunteers, and the Host Countries with information and resources for the development of the projects. In addition, the link to the professional networks and universities will enhance Peace Corps' recruitment capability.

Monitoring tools to assess the on-going development of Peace Corps' effort as well as a reporting system will be established for both program operations and project effectiveness.

# ATTACHMENTS

Attachment A - Examples of Needs of Assessment Information

Attachment B - Current Status: Programming for Health Professionals

Attachment C - Example of Team Approach Utilizing Applied Research and Teaching in a Primary Health Care Context

Attachment A

## Example of Needs of Assessment Information

The kinds of information collected will be descriptive information on the status of health in the country, description of a Primary Health Care component, Health Manpower capability information will be collected

- Disease Data - prevalance and types of disease in order of importance
  - health and nutritional status of high risk populations
  - numbers of deaths and births
  - environmental indicators - clean water availability, for example
- Health Care Coverage - geographical accessibility (distance) and utilization ratio (number/population)
  - ratios of health care providers to population by occupational field. (Numbers of physicians/ population; nurses/ population; hospital beds/ population
- Health Manpower Development Institutions

  (used as training centers - internal, external)

  - names of all professional and paramedical training institutions, number of graduates/ year - both present and projected
  - external institutions (scholarships)
  - names of paramedical and vocation institutions

Attachment A (continued)

- Primary Health Care Organization
  - structure of health care delivery system (including staffing)
  - transportation/access to hospitals and referral centers
  - staff training and supervision schedules
  - referral system
  - reporting system
  - community involvement
- Assessment of Primary Health Care Operations In-Country
  - National Priority Health Problems
  - National/Local/International Strategies
  - Primary Health Care Objectives
  - Major Components of Primary Health Care System
  - Primary Health Care Manpower Capability
  - Health Manpower Development
  - Facility Assessment

ATTACHMENT B

## CURRENT STATUS: PROGRAMMING FOR HEALTH PROFESSIONALS

Peace Corps has programmed health professionals in various capacities in the past. Since October of 1987 Peace Corps has been piloting a new initiative to allow highly skilled professionals to serve variable lengths of service (3 months to 18 months). This iniitiative is distinctly different from Peace Corps' traditional two year program. It is hoped that this flexibility will allow us to recruit professionals which are increasingly requested by the host countries Peace Corps serves. Recently, a number of Peace Corps countries have requested programming assistance to integrate a professional health project into their country program. Activities associated with this initiative include:

PAPUA NEW GUINEA: The manpower needs in Papua New Guinea are at a critical point, almost half of the medical officers in-country are contract employees and the medical school only graduated 17 students last year. In order to address the manpower shortage and the continuing need for supervision and training of nurses and allied health professionals the Government of Papua New Guinea requested assistance from the Peace Corps.

In response, a programming team participated in an assessment of the health needs. The project design for Papua New Guinea will see six doctors placed this August. Three doctors will serve in rural hospitals with responsibility for providing clinical care, supervision, in-service training and up-grading of the primary health care services. Three doctors with medical specialties will serve in base teaching hospitals providing practical training experience for medical students and nurses. This project has potential for conversion to the Health Team Pilot Program due to the extensive needs in-country. Discussions have already taken place to explore the viabi ity of placement of dentists and nurse specialists.

Attachment B (continued)

FIJI: A full scale review of the Peace Corps/Fiji program in February yielded an interest on the part of the Ministry of Health for Peace Corps to reevaluate programming in the health sector. To that end, and as an example of a national assessment proposed in the Health Team Pilot Report, the Peace Corps and the Ministry of Health are conducting an assessment of Primary Health Care operations. The assessment instrument developed in cooperation with the Ministry is being administered by Peace Corps Volunteer nurses and local district nurses in rural areas of Fiji.

The results of this assessment should indicate health manpower deficiencies within the health delivery system and identify possible roles for Volunteers to better support the Primary Health Care systems. It will also help to better identify the skills needed to implement the redesigned project.

LESOTHO: The Government of Lesotho has requested Peace Corps assistance at many levels of the health delivery system. In response to that request an assessment team will be travelling to Lesotho to assist the in-country staff and officials from the Ministry of Health in the assessment and design of a project. The team will be composed of individuals in a manner similar to that proposed in the Health Team Pilot report.

The assessment team will be lead by an experienced programmer and trainer who will coordinate all activities associated with this intervention. In addition, a member of the Variable Length Volunteer unit, a health professional (a registered nurse) with experience in development of health projects, a Ministry official, and a member selected by the Country Director will participate in the assessment team activities. The team will be responsible for providing a final report which will include; a summary of the current status of health delivery, proposed interventions, action plans including time lines for implementation, and a draft project plan. The assessment team report will include recommedations on the feasability of Lesotho for the Health Team Pilot Program.

Attachment C

## Example of Team Approach Utilizing Applied Research and Teaching in a Primary Health Care Context

In host countries with well developed health systems, professors on sabbatical and retired physicians and nurses could be utilized to augment the teaching staff at medical and nursing schools.

History shows that Peace Corps projects which simply sent practitioners into third world situations to delivery primary care have had more failures than successes. The same problems that American and other practitioners trained in the Western medical system found in some developing world situations are also problems for host country practitioners trained in the Western method. This is not surprising since some countries have adopted the Western system with its dogma of the diagnosis, but they don't have the means to make the diagnosis. In addition, supply problems present obstacles. Primary care of acute health problems, even if possible, may not be the best way to improve the host country health status, which should be the ultimate goal of any PC program in health. In proposing primary care as a solution to third world health problems we may only confuse some host countries in light of the predominance of public health measures and education as the foci of most other health development projects (PVOs and USAID).

For countries with less developed health systems, a more difficult approach might be taken. Through extensive preplacement assessments and negotiations with host governments, some areas could be chosen as generally underserved or plagued with serious health problems. Into these places a Peace Corps team would be sent consisting of a team leader (physician), a nurse, a lab technician and an epidemiologist or social scientist. They would be equipped with relatively sophisticated diagnostic equipment and some kind of structure to work in. The team would be augmented by students from the host country health professions school and indigenous practitioners. If necessary, local residents could be identified as counterparts. During the first part of the project, a health survey would be conducted to confirm the presence, rates and importance of conditions identified by the government. Patients would be seen on an on-going basis from the start. The physician and lab tech would utilize the "high-tech" diagnostic equipment to arrive at a diagnosis for patients seen. In some cases, blood tests could be sent away to the states or capital for confirmation of unusual cases or to help the MD get used to the presentation of diseases in the area. In parallel to that, the team would also collect information from "low-tech" tests or physical examination findings which are indicative of certain diseases. The epidemiologist/social scientist is at the same time applying statistical tests to the simple data collected to identify characteristic groups of demographics, signs, symptoms, and lab findings which are highly correlated with the physician's "high-tech" diagnosis. The nurse would be developing and administering culturally appropriate educational materials for patients and at the same time teaching local students the importance of education. Randomized studies could be carried out to see which method of treatment (local or western) is most effective in a given disease.

Over the months of this project, it should be possible to define a method of low-tech diagnosis and treatment which will be within the means of the students and local practitioners to continue to use after the team finishes. The students would be expected to better accept this method of diagnosis because they have witnessed the sophisticated means which verified the simple tests. Some failures of Western health systems in developing countries in the past can be traced to non-acceptance of the ideas taught in school by the people who will become practitioners in the system. The students in this project would also have seen whether the imported therapy was better than the indigenous therapy. In some cases the team would be expected to reject modern drug therapy if local remedies proved more efficacious. This scientific approach should encourage students to accept drug therapy when it had been shown to be superior by randomized studies and accept traditional therapy in the situations where drug therapy didn't work as well. The team would continue this process of treating, teaching and doing research until a state is reached in which students are capable of continuing to make reasonable diagnoses and carry out therapy alone. Other PCV physicians on short term assignment could rotate in and out. Continuity would be maintained by the team leader and longer term PCVs on the team.

## HEALTH CARE TEAM PROJECT

Ms. RUPPE. Very briefly I would like to tell you that we have developed a strategy based on our African Food Systems Initiative which we have found gives the strongest programming evaluation built in, which can truly have impact over a long-term program effort.

Turning our attention to health, we are prepared to implement this health care team pilot project in two countries. We have two teams in two countries right now, who will come back with an assessment. The next step is to send programmers out to do the actual programming.

We are assessing four or five countries for this new program too that we have identified. First are Fiji and Lesoto. The Government of Lesoto had requested assistance, and Fiji was doing a major revision of their primary health care system. So we are in very good timing there to have a program that can truly have impact.

Also we have been in touch with a great number of organizations throughout the United States to work with us in that regard. This is an initiative whose time has really come.

For instance, when I visited Morocco just 2 months ago, in a visit with the Minister of Health, he said, I am not a doctor, I am a manager, and I see that we need people like hospital administrators, like school of nursing administrators, who can really get a management plan in place to provide primary health care.

## PEACE CORPS ASSOCIATES PROGRAM

We are also involved in an initiative which we have talked about over the years, which is the Peace Corps Associates Program. Countries are asking us for scarce skilled Americans with a continuity now that we feel we can be a bridge from midwife associations, from nursing schools, from medical schools, dental schools, to really be able to key in on these scarce skills that we have not been able to provide in our 2-year programs.

So at the very time that we are trying to be sure that we are supporting our volunteers, so they fulfill their full 2 years, if not a third or fourth year, we are also doing some pilot projects in a variable length volunteer Peace Corps Associates Program that would get scarce skilled people going over for, say, a 1-year, for scarce skilled technical backstopping of the longer-range programming of our 2-year program.

A program in Papua, New Guinea, beginning this August will field six physicians, three serving in rural hospitals and three in base teaching hospitals. And we feel this project has the potential for conversion to the Health Care Team Program, due to extensive in-country needs.

## DENTAL PROGRAMS

Other associate volunteer health programs include a program with Harvard Dental School, where fifth-year dental students will go to Jamaica with the continuity that is needed. We do not want to do slot filling, we want to have a program in place with discernible goals, but linked with a school which will give us this continuity of input of the skilled American.

In addition to these new programs in health and associate volunteer programs, of course, we have been strengthening and making every attempt to strengthen our ongoing program.

Our African Food Systems Initiative is still the major thrust in Africa, but it is coordinated with ASAP, our African Small-Business Assistance Program. And that is to try to key into the small business skills which we are being asked to provide in the management skills, better business skills. And that is our major focus in Africa.

### PACIFIC BASIN PROJECTS

In the Pacific Basin, we have really focused on that to see how we can improve our projects. But also working very carefully, not destroying the fragile ecological balance that is there.

To help with this initiative we have enlisted the help naturally of resources in that area. Especially, I must admit, in Hawaii, the University of Hawaii, which is a tropical ag school and which has tremendous outreach to the Pacific, is now working far more closely with us, and we have identified other Pacific resources which can help strengthen our volunteer projects in the Pacific.

Our pre-service orientation is being done there now. Again, in order to allow the volunteers to hit the ground running better, with the people and resources in place that can best help them.

### PHILIPPINE PROGRAM

I know that you have placed great interest, and all of the committee, on our Philippine programs. And I am pleased to tell you we have been able to increase the number there. And we have gone up 100 volunteers since last year, and we expect another 100.

Now, it is not the figures that were there 10, 12 years ago when we had 800, 900 volunteers there. But it is up substantively over the past few years. We have to really take the safety concerns very much to heart, so we are placing more volunteers but very carefully so that their security is in place.

We continue to emphasize health, agriculture and nutrition, forestry and natural resources. But we also have a very strong program there that they just asked for in the last years and that is for teacher trainers.

With the large number of university graduates who have no jobs, now can we take the next step in education which is training teachers, so that Filipino teachers will be out in their rural areas teaching.

Over the past 2 years, of course, health and water volunteers helped over 100,000 villagers there. Over 4,000 handicapped Filipino citizens have been served, we have especially worked with the hearing-impaired and disabled there. And there is a major focus on fish production in the Philippines and in our own hemisphere. We're also working in vocational training and jobs, because over 50 percent of the population in the hemisphere is under 15 years of age. How do you find jobs and training for them? So income generation again, is so important.

I am pleased to tell you we have people, Mr. Chairman, like a former vice president of Pier One Imports, working with street vendors in Jamaica. And it is that type of small business development that is needed in addition to a strong environmental curriculum.

Our collaboration is stronger than ever, of course, with the two groups that are here today, with the African Development Foundation, with the Inter-American Foundation. We work closely with both, and all PVO's and NGO's.

I am also pleased to say we are working more closely with other international volunteer groups. We do training with the West German volunteers, French volunteers, British volunteers, the Japanese volunteers who have quadrupled their program in the last year. We work closely with them, and have begun to have more impact.

## FARMER-TO-FARMER PROGRAM

There is a very interesting new program we have, our new Farmer-to-Farmer Program, Mr. Chairman, which takes advantage of help from USAID, and with the PVO's and VOCA, Volunteers and Overseas Cooperative Assistance.

This is bringing farmers to technically backstop the work of our volunteers. A beekeeper with 20 to 30 years of experience recently went to backstop the work of one of our volunteers in Tunisia. We have had requests from all over the world. I feel again it is important to have more technical ability to impact on these problems with our volunteers.

So, Mr. Chairman, it has now been 7 years since I first had the honor of testifying before you and Senator Kasten. It has been a marvelous adventure, a marvelous experience.

I feel we have developed and grown. As a matter of fact, there is so much to talk about now even I cannot tell you what all different members of the group are doing. Our Leadership for Peace is strong across America. We intend to challenge all of America to interact and work with the Peace Corps.

We hope this will be a focal point of the upcoming elections, that whoever is to be our president will focus on peace through development programs like this. I cannot thank you enough, yourself, for your leadership, that of Senator Kasten's, all the members of this committee, and especially the staffs who have been so very supportive in this work.

I thank you very much. And we pledge our best efforts and that of our 130,000 returned volunteers who are very much involved in continuing that important work for peace. Thank you, thank you, thank you.

[The prepared statement of Ms. Ruppe follows:]

# PEACE CORPS

## PREPARED STATEMENT OF LORET MILLER RUPPE
## DIRECTOR OF THE PEACE CORPS

MR. CHAIRMAN; Members of the Committee, I am pleased to appear before you today representing Peace Corps Volunteers and staff in support of the President's 1989 fiscal year budget request of $150 million. At this level Peace Corps will be able to maintain its programs overseas and recruit approximately 3,600 new Trainees, or the same number as in 1988.

Today, all through this agency, the staff is filled with a vitality unseen in many years. We are poised, prepared and moving forward toward the 10,000 Volunteer goal you set forth in 1985 public law. I must tell you in all sincerity that I have never seen such unity and dedication on the part of all the Peace Corps staff toward one common goal!

Other years I have discussed newly implemented initiatives, such as our African Food program; the emphasis on our programs addressing conditions among the rural poor in Central America, and others. Today I want to give you a brief overview of some of our more important accomplishments of Volunteers and staff over the past seven years and how they set the stage for future growth.

We at Peace Corps are proud of the many accomplishments that have been achieved -- with grateful thanks to you, who have over the years, provided the continued leadership and support so necessary to our Volunteers' work for peace through grass roots development.

When I had the honor of being appointed to this office by President Reagan seven years ago, Peace Corps had 4,470 Volunteers in the field serving in 61 developing nations around the globe.

Despite limited resources in the beginning, and the fact that we were just coming out from under the ACTION umbrella, I am pleased to tell you that in 1988, over 6,600 Volunteers will be working in 67 developing countries worldwide. We are placing 3,600 new Trainees in the field this year, which represents a 25% increase over 1987's level.

I am proud - as I know you are - of the over 25,000 Americans who have served as Peace Corps Volunteers since 1981. For the past seven years their impact on the peoples which they serve is impossible to accurately record - each was involved in more than one project, and countless did much, much more.

The impact of our Volunteers' very presence in the villages, barrios, and cities around the globe is immeasurable in terms of the stimulation they provide, the role model they set, or the creativity they inspire.

Recently in the Federal Republic of Micronesia, President John Haglelgam told me of the Peace Corps teacher he had as a youth. Without the influence of that teacher, he said, he might never have left his atoll village near Yap to become educated and go on to public service.

President Haglelgam's comments are not isolated. Hundreds of other government officials throughout the developing world attribute their dedication and service to the efforts and presence of our American Volunteers in their villages and towns.

## IMPACT OF VOLUNTEERS

President Reagan called Peace Corps Volunteers, "American Ambassadors of friendship and goodwill; builders of bridges of understanding and world peace."

Secretary Shultz calls our Volunteers "America's first line of offense against world poverty".

Let me share with you some examples of the achievements and impact of these "first line forces" over the past seven years:

- In 1984, 650 Volunteers working in our health programs in 30 countries assisted over 4.5 million people.
- In 1985, 84,120 developing world peoples benefited from the efforts of our small-scale fisheries Volunteers. Small scale fisheries know-how can be transfered to farmers.
- That same year, 1985, 1800 Volunteers working in education projects in 50 countries benefited 802,000 people.
- Last year in Liberia, one Volunteer working with her host country counterpart in a child survival project, innoculated 8,000 children in one week.
- In 1987 Volunteers working in Kenya established over 50 improved water supplies providing clean water to 30,000 villagers.
- In Malawi Volunteers provided primary health care services to 450,000 residents at the village level.
- Volunteers in Costa Rica helped to improve the skills of over 900 teachers.
- In The Dominican Republic, 12 Volunteers working in small business development programs directly assisted in creating 4,000 new jobs for Dominican citizens.

- In the Philippines 98 Volunteers working in agriculture production projects directly assisted over 66,000 Filipino farmers in rural areas.

The global impact of our Volunteers is improving. Today our Volunteers are older, more experienced and better prepared to address the needs within the developing world. Our Volunteers have made, and are making a difference -- and I want this nation and world to know it!

## BETTER PROGRAMMING AND TRAINING

Peace Corps is also better prepared to support our Volunteers in the field. Over the past seven years we have actively sought ways of improving and strengthening the agency so we could better support these Volunteers, our "Ambassadors of goodwill and friendship".

We have placed a special emphasis on developing sound programming methods. We have designed a method for evaluating our programs to insure they maximize both the Volunteers' efforts and better address our host countries' needs.

We have implemented improved training of overseas staff and Volunteers, including language training programs to better meet the needs of our older Volunteers. We have critically looked at each department and country program to insure that increased levels of assistance are available in the field and here at home to adequately support future growth.

We have strengthened programming in the areas of small enterprise development, education programs AND, very importantly, built our health sector from nonexistent to the third largest in the agency with four health PASAs in coordination with USAID in child survival, nutrition, oral rehydration therapy (ORT) and combatting childhood diseases (CCCD).

For too many years Peace Corps was criticized for its lack of solid programming and Volunteer support. We have worked diligently to insure those criticisms will not be a part of the agency's growth in the late 1980's and 1990's.

## VOLUNTEER RECRUITMENT AND SELECTION

With solid programming in place, we look at our Volunteer recruiting services to find and place talented Americans. These efforts too have been streamlined. Over 100,000 Americans inquired about Volunteer service last year; we have 15,000 applications being reviewed and 5,000 qualified appplicants waiting to help the peoples of the developing world.

We have expanded our outreach to minorities and older Americans. Seven years ago, only five percent of the Volunteers were older Americans. Today over eleven percent of our Volunteers are senior Americans. We are placing a greater emphasis on attracting Americans with scarce skills - professionals in health, engineering, agronomy and forestry.

Our Placement section has made many improvements. We have automated the applicant processing system to improve response to applicant preferences. We have implemented a "future" selection process whereby applicants are preselected for future Volunteer slots - thus providing a benefit to our older Americans and others who need lead-time to prepare for overseas service. And we have developed a system for better matching applicants to overseas requests. We now have an 80+ percent acceptance rate, considerably better than in previous years.

We have drastically improved our stateside training programs for Trainees. We are replacing our traditional pre-training evaluations (CAST and CRESTs) with an intensive three-day orientation stateside, followed by immediate departure for in-country three-month training programs.

## INTERNATIONAL OPERATIONS

Our country posts and regions have also streamlined and improved their efforts. We have better trained overseas staff; training programs have been evaluated and developed to be more sensitive to the needs of the Volunteers. Administrative staff have been trained in budgetary management and improved administration methods. Each region has developed special programs to better address their respective areas and to reflect changes in the development process.

Twenty-seven years ago, many countries we served were classified as desperately poor. Today, some of these countries are fast approaching mid-development. While requests for Volunteers in the "survival" programs such as agriculture and health are the most prevalent, the requests for special skilled Volunteers reflect tremendous progress toward development. Today, Volunteers are training teachers who only a generation ago were students of Volunteers. As development goals are realized, new goals emerge. Peace Corps is ready, flexible and able to help our host countries continue this winning battle. We are working ourselves out of jobs -- we are making the impact envisioned twenty-seven years ago.

### Africa Region

In Africa, where we now have 2,600 Volunteers serving, we have expanded the African Food Systems Initiative (AFSI). As you may recall, AFSI is our team approach to improve agricultural productivity within a region. Currently 300 AFSI Volunteers are serving in five countries. A new AFSI program will begin shortly in Guinea with more to begin in 1989 in two additional African countries.

The success of the AFSI program and the realization of the tremendous potential impact that micro-business development could have on the nations we serve, has led to the initiation of another new program called the African Small-Business Assistance Program (ASAP).

This program developed in 1987 is designed to promote micro-businesses at the grassroots level through both financial and technical assistance. Four pilot programs will begin this year. The first program in Guinea will be the prototype for successive programs. A revolving credit fund (financed by US private donors), managed by Guinean community representatives, will provide micro-enterprise loans to local small business entrepreneurs. Peace Corps Volunteers will advise lenders and loan recipients in business management skills. We believe this grass roots approach will foster healthy local economies.

### Inter-America

Small business development is also receiving an emphasis in our Inter-America region. Groundwork has been laid for three regional initiatives to better meet the people's needs: Enterprise development (including micro-business), environmental conservation, and youth development. One of the greatest needs in this region is the need for adequate housing, vocational training and jobs for the massive population of young people.

We have Volunteers working in all three areas. Over the past several years we have also increased Volunteer efforts in training host country nationals in treating, educating and assisting those who are handicapped. Volunteers are working in blind orientation, deaf education, mental retardation and vocational rehabilitation, for example.

Our Inter-American program has grown over the past seven years. Volunteer presence in Central America has increased 50 percent since 1985. The Volunteer and program growth in this region was a direct result of countries' needs and the guidelines setforth in the Jackson Plan (Kissenger Report). Major programs in the Inter-America region still deal with basic education, health, sanitation, housing, technical assistance, and national resource preservation.

### North Africa, Near East, Asia and Pacific

Our North Africa, Near East, Asia and Pacific (NANEAP) region deals with a diversity of country needs -- from the poorest of the poor to mid-level developed nations. Throughout this region new programs have been implemented dealing with youth development to address the tremendous needs of the 15-24 year olds who make up over 50 percent of the population in some areas. In North Africa we have designed programs to better meet the need for increased food production, rural health services, and potable water supplies.

We have developed a Pacific Basin Strategy to improve our programs in the Pacific Island nations with emphasis on trying to help the people achieve a higher standard of living without destroying the fragile ecological balance. We have also identified local Pacific resources which can help with our Volunteers' projects in this area.

In Asian countries, where rural community needs are greatest, environmental programs emphasize reforestation and improved agricultural methods.

## MANAGEMENT

Improvements in the field would be useless unless the management of the agency were structured to handle requests for assistance and support from our posts. In this regard our Management facility has made a number of achievements in preparation of agency growth.

As a result of the separation from ACTION, we were faced with a myriad of changes and responsibilities. The entire Peace Corps Manual reflected a domestic operation -- all of that has been revised to reflect the international character of Peace Corps.

We have surveyed Volunteers and overseas staff to identify special problem areas and focused agency attention on their existence and resolution. Immediate feed-back to Country Directors has been implemented when specific problems are identified through country audits. These audits have identified problems with our administrative services, and in the last few years we have experienced marked improvements.

Our Medical Services has established the Epidemiological Surveillance System to identify our highest disease risk areas. Volunteers have better health resources available to them through prevention and treatment training.

We have become more humane in our handling of Volunteers medevacs and our spousal accompaniment policy. We have now a discharge planner to assist Volunteers after medevacs with disability claims and other readjustment issues. We are institutionalizing our effective management systems and establishing new ones to enable Peace Corps to move into the 1990's as a viable, growing and increasingly important tool in the U.S. international development area.

## PRIVATE SECTOR RELATIONS and PUBLIC AFFAIRS

The staff, Volunteers, and agency as a whole is strengthened and moving forward for future growth -- We are challenging all Americans to become involved in our Volunteers' projects, and to become aware of the needs of the developing world.

The Office of Private Sector Relations, established in 1981, is charged with the responsibility for the Peace Corps Partnership and Third Goal activities.

- As a result of our continued challenge to all Americans, I am pleased to tell you that our Partnership program has QUINTUPLED. Gifts-in-kind contributions have increased from $100,000 per year to over $1.2 million.

- Third Goal efforts have also expanded -- the Goal to promote a better understanding of other peoples on the part of Americans. Returned Volunteers have been mobilized as resources to combat what the Southern Governors' Conference calls America's lack of knowledge regarding the Third World --"International Illiteracy".

- Colleges and universities across the nation are now offering Peace Corps related courses. Campus Compact and Peace Corps are working together to involve more Americans in Third World activities through activities on campuses across the nation.

- Our Public Affairs office, with the help of the Ad Council and others, has brought the Peace Corps name before the general public. On a regular basis, Peace Corps is now mentioned on television, in newspapers and magazines and in films.

"Is Peace Corps still around?" is a query of the past. The generous help from the Ad council, our Returned Peace Corps Volunteers, and our Public Affairs office have brought a new and refreshed awareness to Americans of Peace Corps and its activities.

## GROWTH FOR THE FUTURE

The firm foundation has been set for future growth. In 1988 we will have five new country entries. We have designed and implemented a new Variable Length Volunteer (VLV) program to place highly trained, scarce skilled Americans who are unable to serve the normal two year Peace Corps tour, and who are so desperately needed in the developing world.

- Fifth year Harvard Dental School students will begin their work in Jamaica, and public health administration students from Massachusetts and Alabama will also be serving as Peace Corps Volunteers this year.

- Health professionals will begin serving in district hospitals in Papua New Guinea.

We are designing and implementing an integrated Health Team pilot program as called for in P.L. 100-202 Report language to address the critical health care needs within the developing world. This initiative will focus on the causes and effects of poor health within communities and regions.

Peace Corps has expanded its collaborative efforts around the globe and with organizations and federal agencies here at home.

- In a joint venture with USAID and VOCA, Farmer-to-Farmer projects will provide agricultural expertise to people in Africa.

- There are expanded programs with USAID in health, forestry, sanitation and education.

- We have been negotiating with Texas Woman's University School of Nursing. Two years of Peace Corps service will be integrated into Bachelor and Master's degree programs in nursing.

- We are looking forward to increased involvement with the Center for Disease Control and the Department of Agriculture.

- In collaboration with USAID, the World Health Organization, UNICEF, and private voluntary organizations, we are participating in the world campaign for AIDS education.

As we move into the 1990's we will expand our Third Goal activities, creating a better understanding on the part of Americans about the Third World peoples. Returned Volunteers participated last year in a program in Virginia initiated by Governor Baliles called "Volunteers in Development Education" (VIDE). Returned Volunteers participating in VIDE devoted their energies speaking to school students and community groups around the State regarding their work in the developing world. This program has inspired a great deal of interest in other

States. This is a tremendous vehicle to alleviate "International Illiteracy" in America.

## CONCLUSION

It has been seven years since I first appeared before you. Our Volunteers are making a greater impact throughout the developing world. They are older, more mature, better prepared and more effective!

During these seven years Peace Corps celebrated both its 20th and 25th Anniversary and with them came a new awakening about the correlation between grass roots international development efforts and world peace. Peace Corps Volunteers and staff were awarded the "President's End Hunger Award for 1987", and the presitigious "Beyond War Award" last year in recognition for their work towards world peace. The agency has developed and grown.

But beyond this, throughout these past seven years, the Agency --Volunteers and staff -- and the peoples of the developing world have benefited beyond measure by the tremendous outpouring of support provided by you, Mr. Chairman, Members of the Committee, your staffs and all of the Peace Corps friends in both bodies of Congress. Therefore, on behalf of the 125,000 Returned Volunteers, the 6,600 currently serving, the dedicated -- and I might add very resourceful -- staff, and the millions and millions of people our Volunteers have served --THANK YOU!

### INCREASE IN VOLUNTEERS

Senator INOUYE. I am sorry Senator Kasten is not here. I am certain if he were he would join me in saying that we hope that we were able to serve as your partner during these past 7 years.

Ms. RUPPE. Yes, Mr. Chairman.

Senator INOUYE. And I would like to commend you for the work you have done under very difficult circumstances. But as you know, this committee has given this our highest priority.

You have always set a goal for 10,000 volunteers. Where are we now?

Ms. RUPPE. Well, at the end of this year, we expect to be 6,600.

Senator INOUYE. Are we on track?

Ms. RUPPE. We are on track. But I have to say, you know, our level this year would be simply maintenance or below maintenance. We simply cannot do the work.

Senator INOUYE. If moneys were available, how much more would we need to reach this goal in this coming fiscal year?

Ms. RUPPE. I think, given the deficits and all the tremendous pressures, we would still stand by our original report that we submitted to the Congress that showed that with $157 million this year that we would be able to continue moving forward.

I would have to submit that the ongoing inflation and increased medical costs and all that have put tremendous pressure on that. But we do feel that we have a program in place, and that with the report that we had submitted we could move forward the way that we said we would.

## PAPUA, NEW GUINEA PROGRAMS

Senator INOUYE. In looking over your report on the pilot programs you have in nursing, medicine, and dental care, I should tell you that I was personally very pleased that one of your targets happened to be Papua, New Guinea.

I have a long memory. In 1972, when the United States was forced to leave Vietnam, we sent word to all of those countries around the world who were considered our friends, and we asked them, literally hand in hand, to help us take in refugees.

And the response for the most part was extremely heartwarming, especially the response from Papua, New Guinea. If you recall, Papua, New Guinea had just become a sovereign country. Almost penniless, with no resource, other than being a lovely place.

But they sent a telegram to the U.S. Government saying that with their limited resources they would be pleased to participate. And if my memory is correct, they agreed to take 12 refugees from Vietnam.

And since that time, I have always wanted something to be done to demonstrate our gratitude to this strange and new country of Papua, New Guinea. Because at that time some of our major countries in the world, the great powers of this world, refused to respond.

And when a place like Papua, New Guinea can respond with almost no resources, and say, we would be happy to help you, I am glad you are sending assistance there. I do not know whether they really need the help. I am certain they do. But something like this, just tell them that there is one Member of the Senate who appreciates that.

Ms. RUPPE. I will certainly convey that message. They have been very supportive of our program. And with a great variety of languages and isolated pockets of people, it truly is a country that appreciates the support of volunteers.

Senator INOUYE. We have been obviously following your arrangement with the University of Hawaii, that being part of my State.

Are you doing the same sort of partnership arrangement with other campuses?

Ms. RUPPE. Definitely, Mr. Chairman. We feel it was critically important for Peace Corps to reconnect with the universities of America.

We had over 95 contracts with them in the 1960's. But as our budget went down, and as our training tended to go overseas or in the regions where our volunteers served——

Senator INOUYE. That used to be the major source of your volunteers at one time.

Ms. RUPPE. Well, it still is. But the fact is that presidents of universities also came to us and said, we need to internationalize our education in a country where a recent southern Governors' report called us a nation of international illiterates.

They realized that they need to focus and give better career preparation for their students. For instance, just yesterday we signed an agreement with Colorado State University in a master's degree program crafted around agricultural and forestry. We face a tremendous shortage of people in agriculture and forestry.

We feel that everybody is kind of a winner in an arrangement where we would get a steady supply of volunteers.

We feel there is an additional coordination of faculty becoming involved in the countries we are in, and hopefully strengthening the faculties who are having exchanges that will also internationalize our faculty.

### STUDENT RESPONSIVENESS TO PROGRAM

Senator INOUYE. Have the students been responsive to or receptive to this program?

Ms. RUPPE. Very much so. We now have five programs, three of them are centered in public health. One with Boston University.

And a lot of this is also targeted toward minority Americans. The Peace Corps simply is not showing the face of all of America overseas. We are often asked, where are our black American volunteers, where are Hispanic, Asian—I will say Asian are moving up—and native Americans.

So, many of these programs are also targeted to be able to help more Americans serve in the Peace Corps. The heavy student debts of today preclude service on the part of many young people.

But we are also working with groups like the Columbia Teacher's College, which is helping us a great deal. And we have signed agreements, as I said, with the University of Alabama, the University of South Carolina. That is also in public health.

Another very interesting one is with Rutgers, which is in public administration, that is targeted toward black Americans who will serve in the Caribbean. And we have many ongoing discussions with other colleges. The University of New Mexico, we recently signed an agreement with them.

These are ways, I feel, that we will reconnect with universities, we will have the catalytic hope of getting their faculties thinking of exchanges and making Peace Corps a two-way street. We are working with Texas Woman's University of Nursing, and there is no end to that. Our only holdback is having enough people to put all these connections together.

When you go overseas and talk to leaders of nations, and you can tell them that we have a Friends of Cameroon, a Friends of Togo, a Friends of the Philippines group that is looking to try to help. That there are returned Peace Corps volunteers working on these partnerships. If you can tell them that we are having Leadership for Peace events—in New York City on June 6 we are going to have one at the United Nations.

We have had one in San Francisco, Los Angeles, in Hawaii we have had one, as you remember. And during these events we are saying, reconnect with the Peace Corps. How can you be a part of the Peace Corps? How can we get textbooks, for instance, to Chad, where volunteers are teaching with virtually no source books.

I recently talked to a volunteer there who was teaching 120 students ranging in age from 10 to 35, with no textbooks. So our Office of

Private Sector Development has gone to the publishers and has said, would you give books to a project like this?

And we are just waiting for the Minister of Education there to OK the titles of the books, because you do have to be sensitive as to what is sent overseas. And we have also sent some World Books and dictionaries and things like that. But if we could make a connection like that on behalf of every nation we are in, then you would have a flow of information and help.

We also feel strongly we need to go to the unions of America. You know, the printers union. We could have older printers training people in-country to print some of their own curriculum materials also.

I am very pleased to say that Governor Baliles of Virginia has just encouraged his teachers to take a year and go into our Peace Corps Associates program, to go to countries who are revising their curriculum. We have become experts in methodology in this country, and if we can share that with countries we are in.

So it is a long-winded answer. I am sorry. But those are a lot of the things that we are working on, and we feel they are key. They are cost-effective. They are a two-way street. And it is what we should be doing more of.

## PHILIPPINES

Senator INOUYE. I think you very correctly noted in your testimony that this committee and other committees, the Foreign Relations Committee, are very much concerned about what is happening in the Philippines. We have a special affinity and special relationship with the Philippines.

So I must confess that this subcommittee has, I believe, paid great attention to what happens there, as we do with other countries. And we note with some sadness and some great concern the number of child prostitutes in Manila, and other children who are forced to work, beg, pick pockets. And today we are told that as a result of one fire in May, 12,000 persons were left homeless.

Are you coordinating your efforts on children's relief with other international organizations, UNICEF and others?

Ms. RUPPE. Definitely, Mr. Chairman. We work very closely with UNICEF, with all of the primary health providers.

Mr. Grant, the head of UNICEF, was of course an early developer of the Peace Corps. His son has served, but they are just natural to be working very closely.

They, the Center for Disease Control, any of the PVO's that are involved in child care. And the greatest proportion of our health volunteers are involved in primary health care, primarily working in oral rehydration therapy.

We have two ongoing, coordinating, participating agency service agreements with AID that are specifically focused on combating childhood communicable diseases, and oral rehydration therapy.

One thing I would like to report to you for your information, the ongoing coordination with AID has really allowed us to be much more targeted in those areas, because there is a focus in them for technical training.

So we have been able to have in-service workshops with our volunteers targeted on oral rehydration therapy, bringing their counterparts in to train them further. So we definitely are targeted at children and their health support. But there certainly, as you pointed, is far more to do.

Senator INOUYE. I have several other questions, but before I get back I notice two of my distinguished colleagues here. I would like to recognize Senator D'Amato.

### PREPARED STATEMENT

Senator D'AMATO. Thank you, Mr. Chairman. Let me in the interest of time ask that my statement be included in the record as if read in its entirety, Mr. Chairman.

Senator INOUYE. Without objection, so ordered.

[The prepared statement of Senator D'Amato follows:]

## PREPARED STATEMENT OF HON. ALFONSE D'AMATO

### U.S. SENATOR FROM NEW YORK

Mr. Chairman, I welcome Ms. Loret Ruppe, Director of the Peace Corps, Leonard Robinson, President of the African Development Foundation, and Deborah Szekely, President of the Inter-American Foundation. I look forward to their testimonies.

The administration has requested $150 million for the Peace Corps in 1989, only a $3.8 million increase over funds appropriated for fiscal year 1988. Also for fiscal year 1989, the administration requests $7.14 million for the African Development Foundation, an increase of $140,000 over fiscal year 1988 levels. The administration has requested $13.9 million for the Inter-American Foundation, an increase of $900,000 over fiscal year 1988.

The Peace Corps, the African Development Foundation, and the Inter-American Foundation are excellent examples of our Nation's generosity. The Peace Corps recently celebrated its 25th anniversary. Throughout this program's proud history, a total of 120,000 Americans have served in 92 nations. Today, over 5,000 volunteers serve in 62 developing nations. The funds we provide help sustain this volunteer force while fielding up to 2,900 new trainees.

The Peace Corps' finest attributes are tangible. The volunteers dedicate themselves to developing, and to grassroots improvements within, their community. Whether it is teaching new agricultural techniques or giving basic educational instructions to the village children, Peace Corps volunteers witness first hand the fruits of their labor. The benefits of the Peace Corps, however, are not only for developing countries to which we send our volunteers. Thousands of Peace Corps veterans use their unique experiences to serve the United States in many different fields.

Similar to the Peace Corps, the African Development Foundation and the Inter-American Foundation encourage small-scale development projects to better address the needs of the local community. By working with the smaller urban and rural villages, ADF improves the economic health of African nations from the ground up. There are 120 ADF projects in 19 African nations, and 75 new grants are expected to be funded during this fiscal year.

While the big development projects are important to the long-term economic health of Third World nations, local community assistance is invaluable. The Peace Corps, the African Development Foundation and the Inter-American Foundation are cost-effective means to provide this aid. I look forward to supporting these important programs for fiscal year 1989.

Thank you, Mr. Chairman.

## COMMENDATION OF MS. RUPPE

Senator D'AMATO. I would like to take this opportunity to say to our director that you have done, I think, a magnificent, marvelous job, and if anything have reinvigorated the Peace Corps, given it the kind of professionalism, and have brought about that spirit that once was so prevalent and that we were so proud of. And you have combined that spirit and that enthusiasm with a purposeful direction.

So let me commend you, because you are out there in the vineyards, and it is not always easy. It is always easy to be second-guessed, when you have got all those problems to deal with, with administrations abroad that operate their own way, and trying to handle those areas of confluence is not easy.

So I share the chairman's thoughts as it relates to the importance of this work, how important it is to the host countries, how important it is to our young people who are participating and how important it is to this Nation itself. And I want to wish you continued success.

I just have one question for the record. Thank you, Mr. Chairman.

Senator INOUYE. I thank you very much. Maybe we should just adjourn at this point.

Ms. RUPPE. I like that. Overseas we do make the headlines. I often say in the United States it is hard to get news on the front page.

This was from the Cameroon Tribune. I think it gives an idea, President Via, to give an idea of the growth of the Peace Corps, was a lower official in the Ministry of Education when the Peace Corps started this.

So he has known Peace Corps ever since it started in Cameroon back in the 1960's. I think that is what the volunteers have learned. I am very grateful for your kind words.

But it is the volunteers who have been out there and the staff that have done the real work. But thank you very much. We appreciate your support. I hope you are going to be at the June 6 event.

Senator LAUTENBERG. I walked into the middle of a love-in here.

Senator INOUYE. Do you have any advice? Otherwise, I do not recognize you.

Senator LAUTENBERG. Do you want my statement first? I would just add my compliments to Ms. Ruppe for a job well done, the fact that you are able to expand the base of volunteers and the contribution that they make.

## SMALL-SCALE FISHERIES VOLUNTEERS

I am curious about one thing, since I come from the computer field. How do you measure the fact that 84,120 developing world people have benefited from the efforts of the small-scale fisheries volunteers? How do you get that precise a number?

Ms. RUPPE. They actually take the number of ponds and then estimate what the population spread would be out in those areas and multiply them.

Senator LAUTENBERG. That is quite an estimate. I mean, 84,120. Are you sure it was not 118? In any event, I think you are probably allowed to round off to the nearest thousand.

But in any event, I did want to add my good words to those you have heard, and that is to compliment you for a job well done, because Peace Corps not only does wonderful things, I believe, for the countries which we try to help and which we try to engage.

But also, if you look back at the history of those who have served in other positions of government here, many have had a Peace Corps association before, and have come into the halls of legislation and to the various administrations, and have made contributions.

And based on the experiences that they have had in the Peace Corps have had a special knowledge, a special ability to contribute something to the well-being of our country in terms of its leadership responsibility in this world. So we thank you very much.

Ms. RUPPE. Thank you, Senator. It is interesting to note that in the last group of ambassadors, three had served in the Peace Corps.

We now have seven ambassadors serving, or will. The DCM in China is a former volunteer. I cannot help but think about that when that great nation invited us to serve there. I just discovered that the head of the United States of America Oceanic Bureau, who is a very close friend of our volunteers, spoke Nepali, that he had a sensitivity and an understanding. And I think that has really come back.

I think, Mr. Chairman, you mentioned your longstanding friendship and support of Sargent Shriver. Sargent Shriver has often said the untold story of Peace Corps is what you have indicated, which is what it has brought back to America, which is needed even more today, and that is why the fact that we are able now to at least be pointing toward the goal of 10,000 by 1992 is important.

In 1967 there were 15,000 Americans serving in a population of 198 million, with a world population of 3.4 billion. Today we have under 10,000 with a population of 240 million and a world population of 5.5 billion.

So I give great credit to a committee like this that has said, let us change that, let us make this relevant to the interdependent world of today.

Senator LAUTENBERG. I wish in some way we could replicate this effort domestically, and have the kind of voluntarism supported by the Federal Government to go into communities that in some cases almost need as much as the countries we are working in.

And if we could give it the same kind of attention and support, I think it would make a major contribution to the way we function as a society as well. Strength from within brings strength externally. Thank you, Mr. Chairman.

### MARSHALL PLAN FOR PHILIPPINES

Senator INOUYE. Thank you very much. If I may continue, right now our government and the Philippines government are engaged in discussions on establishing what we have called a Marshall Plan for the Philippines. Have you been called in to these discussions?

Ms. Ruppe. Well actually, we have not, Mr. Chairman.

Senator Inouye. Really?

Ms. Ruppe. No. Which we should really be a focal point of that. Because it takes that kind of planning and coordination to have a real impact.

Senator Inouye. We shall send an official letter from this committee suggesting that the Peace Corps be made part of the discussions. I think it is very important. I am sorry to hear that you are not involved. I just assumed you were.

Ms. Ruppe. Actually, when I read about it, I wondered myself, because we definitely should be. But again, it shows how you have got to keep insisting that you are a very important part of development, one of the keys.

I would be remiss if I did not just go back to your question and interest in the children of the Philippines. Our John F. Kennedy volunteer of the year is a man, a gentleman named Alex Korff, who works with Filipino children as a Peace Corps volunteer in Ilo Ilo. He started a hospice there.

I toured the hospital in which he works mainly in nutrition, but he has started a hospice himself for the youth of that area. When he was asked about the situation of children in the Philippines, he had to say he felt that at least 20 million of them suffered from severe malnourishment. So your interest in their welfare is certainly supported by this grim statistic.

### U.S. INVOLVEMENT IN CHINESE PROJECTS

Senator Inouye. I think the best indicator we have had as to the status of relationship with the People's Republic of China came out about in March of this year, when you were invited to participate in projects in China.

Can you tell us briefly what sort of projects we are involved in? How many volunteers you are planning to send? Where these volunteers will be located? Are there any restrictions on your movement? Will you be going to Tibet, for example, where there are problems? And whether Beijing will be sharing part of the cost?

Ms. Ruppe. Well, most of that still has to be discussed. And the thought was that those discussions would take place in Beijing when this team goes there.

We have had some preliminary—of course, you know, different people representing Peace Corps, both formally and informally, have talked with different groups in China over the past 10 years.

But now that the invitation is there, now that they have received and asked for a great deal of information about how Peace Corps does operate in the 1980's, they have had ambassadors from different countries that we serve in go to visit our headquarters to observe volunteers actually working in the field and getting updates.

They feel that all this will come together then in June, late June, when our team goes to further discuss. They still need to decide themselves which specific agency, ministry, we would work with, which would give the best support.

But we have had very good discussions, I feel, talking about what we are, what is needed, what, as you mentioned, their own contribution would be in housing or whatever. So the next step really would be, and we would be pleased to submit a report to the committee after that team returns, as to the outcome.

## NEW PEACE CORPS SITE

Senator INOUYE. We would like that because of the unique importance of the People's Republic. Have you moved into your new building?

Ms. RUPPE. We are on the verge.

Senator INOUYE. This was a big matter we joined in with you.

Ms. RUPPE. Which I thank everyone for very, very much. We are remaining in our Nation's capital. I am very pleased to say we have located a building which is, I think, perfect for our uses. It is at 1990 K Street. It provides us easy access to the hospitals. It is even closer than our headquarters now. It is an older building. It is in very good condition.

Senator INOUYE. I was trying to locate it by the restaurants there.

Ms. RUPPE. It has a Roy Rogers, a Swenson's, and a Sholl's Cafeteria where we feel we can do a lot of our senior volunteer recruiting.

Senator INOUYE. Well, I want the Peace Corps to be in a high-class area.

Ms. RUPPE. Thank you, Senator. The volunteers certainly thank you because it does assure them easy access to the hospitals. It will bring our medical center together. We have been divided into three buildings. This puts us into one building. And it is a short way to the Metro for those volunteers who can walk.

## LOCUST PLAGUE IN AFRICA

Senator INOUYE. Were your volunteers aware or knowledgeable of the present locust plague in Africa?

Ms. RUPPE. Yes, yes. They were. Because, of course, the prior plagues they had been involved in eradication.

I did hear some very good reports while I was traveling in Africa of the AID efforts to eradicate the locust before, and the fact that because they built up a good infrastructure, they did have more opportunity to impact.

Senator INOUYE. Has this had any impact on your programs out there?

Ms. RUPPE. When I was in Chad and Cameroon, they were saying, you know, the rains were good. But one of the downsides unfortunately was this plague. I do not have any specifics of impacts on our programs.

I am getting a special note here. In Tunisia, a volunteer from Oregon was specifically working on a spraying program in Tunisia. I have that one tidbit of information. I could find out for you, Mr. Chairman. I just do not know for sure myself.

### PEACE CORPS TARGET AREAS

Senator INOUYE. In looking over the reports of recent months and recent years, I get the impression that the major thrust of the activities now is aimed at Asia and Africa.

I say this because at one time it appeared to me that Central America was a major target. Is Central America still high on your list?

Ms. RUPPE. I have to say, every country we are in is high on our list. Certainly in Africa, you know, we determined that we must put our major effort into promoting food production, which is the priority of that continent itself. It is secondary to business.

In our own hemisphere, first of all, we have always made the statement that we felt that if more of our type of work was done in Central America there would be more stability and peace there.

So we certainly have done everything we could to strengthen our programs there. It continues to be a high priority. But I have to say, every nation we are in we consider a high priority.

I do feel that we must continue to be as strongly involved in Central America as our resources and their capability to absorb our program and to support it will be. I also feel very strongly we need to return to more nations in South America.

I think knowing, understanding the language, the culture of our own hemisphere is very important. So we have continued to keep close contact with the nations of South America and tried to encourage our returned volunteers to serve there, and say, we are always open to an invitation to return, to maintain and strengthen our relationships within our own hemisphere.

Senator INOUYE. I have, as you can see, many, many more questions which I would like to submit to you. I have been advised that Senator Kasten has a lot of questions he would like to submit. Most of my remaining questions are of a highly technical nature. So if you could look them over and give us a written response, we would appreciate it.

### AMERICAN INDIAN SITUATION

Finally, an inquiry, not a question. I am chairman of a committee that is almost unknown. I am chairman of the Select Committee on Indian Affairs. It is not considered an important committee.

But this committee has the responsibility of assuring the Native American Indians that the trust relationship that exists between our government and their sovereign tribes continues.

If you would study the situation of the Indians, I am sure you would be just utterly horrified. For example, we find today that the highest incidence of suicides among any ethnic group in the United States will be found among the Indians, in any age category, from young childhood, teenagers, all the way up.

The highest incidence of alcohol abuse, alcoholism, will be found among the Indians. The unemployment picture among Indians is so bad that we do not print it. The national average is 47 percent.

I spent 6 days in 11 reservations this past week, and the average among these reservations was 80 percent. This is in Montana and North and South Dakota, the Sioux, the Chippewa, the Crow, the nations of brave warriors. Little Big Horn, that type. Eighty percent.

When you look at the list of medical problems, you will find that diabetes is the highest even among other countries. For example, over half of all Indians above the age of 50 are diabetic.

It is mind-boggling. They have the highest incidence of cancer, of respiratory disease. And if there is any group crying out for assistance, because it has always been on the bottom of the list when it comes to priorities, the physicians in the Indian Health Service get paid less than VA doctors. You know, that's nonsense.

Well, we are going to change this. I just became chairman. But in speaking to professional groups, I get the impression that there are hundreds of men and women who would like to volunteer their services, but the Bureau of Indian Affairs has no program to bring in volunteers in an organized fashion.

My inquiry is, may I send my staff people to meet with your staff people so we can be given instructions on how to set up a Peace Corps-type organization for Indians?

Ms. RUPPE. We would welcome that. I know that many of our returned volunteers are just the type of people. Many of them already go back to work on and within the reservations, because I have spoken to many of them.

Senator INOUYE. It is unbelievable that in our midst we find this type of destitution.

Ms. RUPPE. Does Vista help at all in that regard?

Senator INOUYE. They usually go to big cities.

Ms. RUPPE. We would be very pleased to work on that. I did want to let you know that, in cases like that, I think you would really see dramatic rises.

Like recently when I was in Micronesia, the president of that nation informed me that he did not feel he would be president if a Peace Corps volunteer had not come to his atoll off the island of Yap and encouraged him to go on for education. So a program like this could hopefully help our Native Americans take their rightful place in our society.

Also, some sort of scholarship program could be discussed for Native Americans to serve in the Peace Corps, because we have too few, and educating them towards this type——

Senator INOUYE. Who should my staff contact in your office?

Ms. RUPPE. Me.

Senator INOUYE. You? Fine. Well, on that high note, I thank you very much.

Ms. RUPPE. Thank you, Mr. Chairman, very, very much.

Senator INOUYE. I look forward to your service to our country for many more years.

Ms. RUPPE. Thank you very much, Mr. Chairman.

## SUBMITTED QUESTIONS

Senator INOUYE. Additional submitted questions will be inserted in the record at this point.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### HAITI

SENATOR INOUYE: What is the current status of Peace Corps projects in Haiti and what do you anticipate the cost of restarting them to be?

LORET MILLER RUPPE: Concern for the safety and welfare of the Volunteers is our number one priority. Following the strikes and violence of last summer, the number of Volunteers was reduced in August by half, from 52 to 25. This reduction was accomplished through a combination of normal and early completion of service, resignation, and transfers to other countries. In addition, the summer class of new trainees was cancelled. By the end of 1987, there were only 19 Volunteers remaining in Haiti. As a result of the November election violence, all Volunteer activity was suspended and the 19 Volunteers temporarily withdrawn. Since the January 17th elections did not meet the criteria of Section 569 of the FY'88 Continuing Resolution, PL 100-202, Volunteers were not returned to Haiti to continue their service in January.

However, since we wish to continue operations in Haiti in the near future, Peace Corps maintains a core staff in Port-au-Prince. Our staff continues to pursue potential collaborative efforts with several private voluntary organizations currently operating in Haiti concentrating on the following critical areas: rural health, agricultural extension, and fresh pond fisheries (aquaculture). We are prepared to bring in a group of about 20 trainees and build slowly to a total of approximately 75 Volunteers in fiscal year 1989.

Because the staff remains in Haiti, the cost of restarting Peace Corps operations is minimal and would consist of normal training costs, Volunteer allowances and continued administrative support. We calculate that it would cost approximately $178,000 to resume operations. If Peace Corps were to close down now entirely and reenter Haiti sometime in the future, logistical costs including securing and furnishing an office and hiring staff, as well as beginning Volunteer operations, the costs would be significantly greater. To begin anew with 20 trainees, the estimated start-up costs would be nearly one million dollars.

### SUDAN

SENATOR INOUYE: I understand that the Peace Corps recently withdrew its five remaining volunteers from the Sudan after many years of productive work.

Why has the Peace Corps ceased work in the Sudan? What conditions make your activities in the Sudan difficult?

LORET MILLER RUPPE: Efforts to establish a Peace Corps program in Sudan began in 1977 and continued until 1984 when the government of Sudan formally requested 5 Volunteers to work collaboratively in a U.S.A.I.D. renewable energy project. The 5 Volunteers arrived in Sudan on September 30, 1984. The Volunteers were withdrawn following the American attack on Libya in April 1986 and a subsequent attack on an American foreign service employee in Khartoum a few days later. The Volunteers were kept on hold for several months after this incident in anticipation of returning. However, the State Department did not resume full operations in Sudan for several months. At this point, the Volunteers were close to their end of service and for safety reasons, it was decided not to send them back to country.

SENATOR INOUYE: How has the withdrawal of the Peace Corps from Sudan affected your ongoing projects?

LORET MILLER RUPPE: The impact was negligible. Peace Corps wasinvolved in only one project in Sudan. We do not have ongoing activities in the country.

SENATOR INOUYE: How much did Peace Corps invest in the Sudan over the past 25 years. Has all of that investment been lost, now that the Volunteers have been withdrawn?

LORET MILLER RUPPE: Peace Corps investment during the 19 months of Volunteer activity in the Sudan was minimal. Two assessment teams and a Volunteer contingent of five comprised the total Peace Corps input. Volunteers worked collaboratively with U.S.A.I.D. which provided the project's funds and Volunteer support services. Therefore, Peace Corps did not sustain great financial losses from the withdrawal.

SENATOR INOUYE: Have you entered into discussions with the Government of Sudan on the possible future return of Peace Corps Volunteers?

LORET MILLER RUPPE: At the request of US Ambassador Anderson, Peace Corps funded an assessment team in September 1987 to determine the potential for re-entering Sudan. Since then the Government of Sudan has requested the Peace Corps return and the Ambassador has been asked to negotiate an agreement. Once this is achieved, a second assessment team visit will assess the overall political and security situation.

## MOROCCO

SENATOR INOUYE: I understand that the Minister of Health in Morocco asked the Peace Corps to provide his administration with much needed management trainees, such as hospital administrators and repair technicians.

Has this request been fulfilled? If not, why not?

LORET MILLER RUPPE: Requests like the Morocco Health Minister's for health professionals to train health managers, and improve health support systems are most welcome particularily in light of the initiation of our Health Team program. Recently we met with the President of the American College of Healthcare Executives to discuss recruitment for and support of these scarce skilled health personnel. The College's and other professional organizations' endorsement of our program coupled with requests from several countries including Morocco, indicate a tremendous need for this type of assistance. We look forward to evaluating the successes of our pilot Health Team programs.

In specific reference to your question, Peace Corps Morocco is extremely interested in responding to recent technical assistance requests by the Minister of Health for hospital administrators, repair technicians and additional health specialists. However, health is a new programming sector for Peace Corps Morocco. Peace Corps Morocco is only now entering into collaborative efforts with the Ministry of Health through a new Health Sanitation Project which begins September 1988. Contingent upon our initial evaluation of our impact in the Health Sanitation Project, Peace Corps Morocco will consider these and other request by the Ministry of Health. In the meantime, we will be investigating the possibility of supplying some of these more scarce skilled technical requests through the new Peace Corps Associates program.

## PAKISTAN

SENATOR INOUYE: I understand that in 1986 the Government of Pakistan expressed interest in the Peace Corps returning to that country. Pakistan was one of the first Peace Corps countries fielding approximately 368 Volunteers in rural public works projects from 1961 until mid-1967. In that year Volunteers were withdrawn due to political unrest. Have Peace Corps Volunteers begun to return to Pakistan as planned for in 1988? How many Volunteers are slated to go to Pakistan and in what capacities?

LORET MILLER RUPPE: Peace Corps is sending eight Volunteers with degrees and backgrounds in English and education to Pakistan in September. We hope to send an additional 28 trainees in September of 1989.

Volunteers will work as English instructors in the Men and Women's College of Elementary Education in Lahore, and the Federal College of Education in Islamabad. English teacher trainers will work at the English Education Center in Lahore, and at the National English Institute in Islamabad.

All Volunteers will have an opportunity to share their teaching skills and their experience in materials development and curriculum design with Pakistani teachers.

## RECRUITMENT

SENATOR INOUYE: Has there been any change over the years in the training and backgrounds of Peace Corps applicants?

LORET MILLER RUPPE: Peace Corps applicants and Volunteers are more experienced, degreed, and older today than in the past. In the past 10 years, host governments have increased their requests for Volunteers with skill-specific degrees and substanitial experience.

This can be attributed, in part, to the changes in the economies and development needs of our host countries. Consequently, Peace Corps has shifted its recruitment efforts to target individuals with the requested skills. Although there has been a significant increase in applicants with scare-skills, Peace Corps still cannot recruit enough scarce-skilled Volunteers for all requests. Particularily difficult skills to recruit are agriculturalists, foresters, health professionals, and teacher trainers.

SENATOR INOUYE: What has been the minority representation within the ranks of Peace Corps Volunteers over the last few years?

LORET MILLER RUPPE: Last year, minority representation was approximately 7% of the Volunteer force. For more than four years prior, minorities representated 6% of all Volunteers and trainees. Within that percent, there has been growth in the numbers of Hispanic and Asian Americans.

SENATOR INOUYE: What do you feel can be done to increase the ethnic and regional diversity of Peace Corps applicants?

LORET MILLER RUPPE: Our staff believes the following strategies can increase diversity:

- Assure staff diversity in each of our recruiting offices.
- Increase awareness of programs at college, universities and in communities.
- Increase awareness of the Peace Corps Partnership Program with pre-college youth.
- Develop cooperative agreements with colleges, universities and other organizations to assist in recruitment.
- Provide news releases and other agency information to ethnic and minority media.
- Promote the benefits of Volunteer service.

SENATOR INOUYE: What kind of recruitment activities does the Peace Corps undertake on American college and university campuses? What improvements in the recruitment program can you recommend?

LORET MILLER RUPPE: A variety of recruiting activities are imlemented on college and university campuses. Activities are selected based on the opportunities to recruit specific skills and are also based on agreements with college placement offices and other campus liaisons. Activities include the following:

- Information tables strategically placed in well trafficked areas.
- Class presentations.
- Participation in seminars and panels.
- Interviews with students who have applied and others considering applying.
- Film presentations.
- Meetings with individuals and groups such as sororities, fraternities, church groups, minority organizations, deans, professors, advisors, placement office staff, skill specific organizations like Future Farmers of America.
- Interviews with campus and community media.
- Participation in career fairs, conferences, and special events.

- Posters placed throughout campuses.
- Mailings to students, professors, returned Volunteers.
- Pairing of applicants with returned Volunteers so that more program awareness takes place.

Recommendations to improve campus recruitment include:

- Cooperative agreements with specific schools or organizations in order to increase the numbers of scarce skilled and minority applicants.
- Increase support from returned Peace Corps Volunteers on campuses.
- Expand use of direct mail to scarce-skilled campus population.
- Provide more in-depth information to the scarce-skilled and minority populations.

## HOST COUNTRY CONTRIBUTIONS

SENATOR INOUYE: How well have host country contributions to Peace Corps projects kept pace with the growth in Peace Corps appropriations and expenditures in recent years?

LORET MILLER RUPPE: The Peace Corps has never linked the level of Host Country Contributions (HCCs) to its appropriation. HHCs are included in the negotiation process at the time Peace Corps establishes a program in a country and are renegotiated periodically. Although HHCs represent less than one percent of our appropriation, most countries participate. The amount and kind of contribution varies based on the country's economic situation as well as Peace Corps' needs within that country. For example, in-kind contributions of goods or services by a host government (housing, equipment, use of training facility) may be made available in lieu of cash. Volunteers many times provide direct support to projects that are initiated, financed, and the manpower provided for by the host country.

## ADMINISTRATION

SENATOR INOUYE: What affect has the drop in the dollar exchange rate had on Peace Corps procurment overseas?

LORET MILLER RUPPE: Approximately 60 percent of the Peace Corps' appropriation is vulnerable to exchange rate and overseas inflation flucuations. This includes such costs as Volunteer allowances, salaries and benefits for Foreign Service Nationals, medical and close of service travel expenses, some overseas training costs, and supplies and services procured overseas.

While our purchasing power in 1988 has not eroded as dramatically as it did one or two years ago when we were experiencing exchange rate losses of 16 to 31 percent, the Peace Corps will spend an additional $5 million of its 1988 appropriation to maintain programs overseas at current service levels. Most of our exchange rate loss is in CFA countries where the exchange rate increase has been averaging 5.8 percent since April 1987.

In addition to unfavorable exchange rate flucuations, the Peace

Corps' program dollars are reduced by overseas inflation. In Sierra Leone and Zaire, for example, annual inflation rates have averaged 107.1 and 49.3 percent respectively over the period of 1984 to 1987. World-wide, nearly half of Peace Corps countries are experiencing double digit inflation.

SENATOR INOUYE: What steps do you take to ensure that recipients of Peace Corps assistance are able to meet the recurring costs of these projects?

LORET MILLER RUPPE: Skill and knowledge transfer is the primary objective of the Volunteers' work. The nature of our assistance is in skill development. We impart the skills to host country population which enable them to take care of repair, maintenance or expansion themselves.

Projects are selected in part for their economic sustainability within the host country. Projects generally require an initial capital outlay, but have few or no recurring costs. However, if they do have recurring costs, an income generation component is designed in the project.

While we do have some Volunteers involved with projects that require a higher level of capital investment, such as school and bridge construction, the skills that are transfered have a cost reducing effect on subsequent projects. Peace Corps does not provide project funds; capital is contributed by several sources: U.S.A.I.D., host country contributions, private voluntary organizations, and Peace Corps' Partnership program.

Take for example our fisheries programs. Volunteers spend time not only teaching others how to fish farm, and build and repair fish ponds. Since these projects are involved not only with food production but also with income generation, financing methods for repair and maintenence are also taught at the same time to allow for the perpetuation of the project long after direct Peace Corps involvement ends.

Our small enterprise development Volunteers teach host country counterparts how to start, maintain and further develop small businesses. This includes training in finance procedures, marketing and business management. This type of training by our Volunteers is expressly for the purpose of maintaining and expanding these businesses so that they will be self-sustaining after the Volunteer leaves.

SENATOR INOUYE: What has been the ratio of Peace Corps operational expenses to administrative overhead during the last eight years?

LORET MILLER RUPPE: Dollars devoted to program operations have averaged 67% of Peace Corps' appropriations during the past eight years. Administrative overhead includes Headquarters costs such as Volunteer medical support, technical program assistance, rents, communications, supplies, equipment, salaries and benefits, travel, and conferences. Overseas overhead includes Volunteer allowances, technical program assistance, salaries and benefits, housing allowances, travel, conferences, supplies, equipment, vehicle purchases, and the Foreign Affairs Administrative Support System (FAAS).

| | APPROPRIATION° | | | PERCENT | |
|---|---|---|---|---|---|
| | ADMINISTRATIVE | OPERATION | TOTAL | ADMINISTRATIVE | OPERATION |
| FY79 | 39,122 | 64,687 | 103,809 | 38% | 62% |
| FY80 | 32,685 | 66,518 | 99,203 | 33% | 67% |
| FY81 | 34,841 | 69,817 | 104,658 | 33% | 67% |
| FY82 | 33,854 | 70,840 | 104,694 | 32% | 68% |
| FY83 | 33,900 | 74,840 | 108,501 | 31% | 69% |
| FY84 | 35,736 | 79,288 | 115,034 | 31% | 69% |
| FY85 | 40,649 | 88,884 | 129,049 | 31% | 69% |
| FY86 | 39,634 | 84,415 | 124,049 | 32% | 68% |
| FY87 | 42,111 | 88,712 | 130,823† | 32% | 68% |
| | | | AVERAGE | 33% | 67% |

°Actuals

†Remainder of FY87-88 Supplemental appropriation included in FY88 operating budget

Source: Budget of the United States Government - 1981-1989 Appendices

## ENVIRONMENT

SENATOR INOUYE: I notice from your congressional presentation that the Peace Corps currently is involved in a range of projects around the world in the fields of forestry, fisheries, small-enterprise development, water resources, education, health, energy conservation and food production. No specific mention, however, is made of the needs of the environment.

What sort of projects has the Peace Corps undertaken which have not been of a non-commercial nature and have involved environmental protection or reversing the effects of environmental degradation?

LORET MILLER RUPPE: The Natural Resource Sector seeks to support Volunteers in projects that improve the management of natural resources in developing countries. Key components of the sector philosophy are 1) direct involvement of the local community, 2) a focus on human needs, 3) change through environmental education, and 4) incorporation of women into development decision making.

The Peace Corps annually allocates approximately 12 million dollars to backstop the 525 Volunteers working in Natural Resources. A joint Peace Corps/U.S.A.I.D. Forest Resource Management PASA provides an additional $2.8 million to support joint multi-collaborative natural resource programming through 1990. The National Park Service, USDA Forest Service, World Wildlife Fund and the Man and the Biosphere provide additional technical and material support through established interagency agreements with Peace Corps.

Some of the current program areas where Peace Corps natural resource efforts are producing positive results include: Forestry Extension, Wildlife Management, National Parks/Biological Diversity, and Environmental Education. Some examples of Volunteer activity in these areas are:

Forestry Extension: Forestry Extension Volunteers may undertake any of a number of different projects, but most of their activities center on agroforestry and forest management. All extension Volunteers work at the community level to promote the use of traditional agroforestry systems as well as introducing new forms of sustainable agriculture, animal husbandry, and fuelwood production which have positive impacts on the environment. They develop and manage tree nurseries to support their tree planting promotional activities. Forest Management Volunteers are working with host country Forest Service counterparts, alongside forest wardens or rangers, harvesting supervisors, silviculturists, forest fire suppression teams, pest researchers, and others. Through community meetings, demonstrations, workshops, and informal talks with women's groups and community representatives, Volunteers are creating an awareness of natural resource conservation and transferring their forestry skills to community members and host country counterparts.

Wildlife Management: Volunteers have been making significant contributions to wildlife studies and wildlife management. Through biological inventories, species studies, and habitat recovery and management plans, their efforts have reinforced host country endevours in protecting threatened and endangered species and in producing high-quality protein and other products on a sustainable basis from native wildlife.

National Parks: Volunteers are working in a variety of positions and projects with host country national parks agencies. Together with counterparts, they have identified potential reserve locations, surveyed and marked boundaries, conducted flora and fauna surveys, trained natural history interpreters, established visitor centers and museums, and developed tourism plans. In a limited number of countries, Volunteers are working to establish and manage marine parks and reserves.

Environmental Education: One of the most important activities directed at the long-term protection and wise use of natural resources involves environmental education and public awareness. Volunteers are developing conservation curriculum for primary and secondary schools, teaching college-level environmental education courses, training teachers in environmental techniques, and developing national media campaigns and other programs to promote community and broad-based support for natural resource conservation.

## AIDS

SENATOR INOUYE: What effort is made by the Peace Corps during the orientation process to instruct Volunteers in the dangers of communicable diseases, particularly AIDS, in the region where they are being assigned?

LORET MILLER RUPPE: Every effort is made by the Peace Corps during the orientation process to instruct trainees in the dangers of communicable diseases in the regions where they are assigned. Particular attention is paid to HIV infection: what it is, how it is transmitted, and how to protect oneself generally, and in the region in which one will live and work.

Information provided to Trainees and Volunteers is given by medical officers using materials provided by the Office of Medical Services, and supplemented, in many countries, with information of local interest such as rates of infection for that country.

A Information Notice on HIV Infection is given to acceptees at the time that they are notified they have been accepted for training. A detailed overview based on the Peace Corps Medical Guidelines from the Office of Medical Services is given to Trainees by a Peace Corps Staff Nurse just prior to their departure overseas. This overview includes information on communicable diseases and HIV infection in the country to which the Trainee has been assigned. It includes information on the causes of AIDS, its epidemiologic characteristics, HIV infection, modes of transmission, and general preventative measures. In addition, Trainees are given Peace Corps' policies on blood transfusions, injectable medication and vaccines, and acupuncture. This information is repeated during pre-service training in-country by a Peace Corps Medical Officer, and later during in-service training. It is also repeated at Volunteer conferences and shared in medical newsletters.

In all of the information given to Trainees and Volunteers sexual abstinence is stressed as the surest way to avoid becoming infected. Although Peace Corps stresses to Trainees and Volunteers that they must take responsibility for their own behavior, Peace Corps recognizes that some Trainees and Volunteers will choose to engage in sexual activities, and it is to them that we direct information on the dangers of unprotected sex.

Monthly reports of all recent AIDS education activities are cabled to the Office of Medical Services in Peace Corps' headquarters in Washington.

SENATOR INOUYE: To what extent do your health programs provide instruction, diagnosis, and treatment of AIDS, and do your Volunteer medical professionals follow the latest recommendations of the World Health Organization?

LORET MILLER RUPPE: Peace Corps currently has no programs in which Volunteers in the field provide instruction, diagnosis, or treatment of patients with either HIV infection or AIDS. However, over the next several months, we plan to send assessment teams to those countries which have already indicated that Volunteers could be used effectively in controlling and preventing the spread of this infection. Specifically, Peace Corps has proposed that Volunteers could integrate AIDS education into existing health curriculums, train trainers to work with village cooperatives, women's groups and church groups, work with the media as cameramen, technicians or graphic artists in existing national AIDS campaigns, and help increase and strengthen existing health services. In addition, Peace Corps is looking to join other international organizations such as WHO, CDC, PVO and AID, to program Volunteers in AIDS control activities.

All Peace Corps Volunteer medical professionals have been instructed to follow the latest recommendations of the World Health Organization as they apply to the health care setting. Volunteers providing primary health care have all been instructed to take the universal precaution approach (which means to treat all bodily secretions as if they were infected) as outlined in the guidelines issued by the Public Health Service. These guidelines, identical to WHO guidelines, have been provided to all Medical Officers who are requested to share them with all health Volunteers. Copies of the guidelines are also sent to Country Directors.

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### RECRUITMENT

SENATOR KASTEN: Please give us some statistics on minority recruitment in the Corps. How many more minority recruits are in your ranks this year than last?

LORET MILLER RUPPE:

| | FY86 | FY87 | Difference | FY88* | Difference (FY87) |
|---|---|---|---|---|---|
| All Applicants | 12,093 | 10,373 | -1,725 | 8,011 | -2,362 |
| Minority Applicants | 1,243 | 1,110 | -133 | 791 | -319 |

* Data for FY88 is as of 5/20/88

### USAID/PEACE CORPS COLLABORATION IN EDUCATION

SENATOR KASTEN: You say in your statement that you are expanding program with USAID in education. Please give examples of what this means; what kinds of projects you are working on, where they are, and what roles you and USAID play in those projects.

LORET MILLER RUPPE: USAID and Peace Corps enjoy a long history of collaboration in the field of education. Typically, this collaboration has been established by single-country agreement, signed locally and has included the use of Volunteers on USAID projects, often in conjunction with an USAID technical assistance team; the joint development of projects, and the provision of USAID funds in support of Peace Corps projects. Activities to date have included:

Lesotho: Volunteers collaborate with USAID technical assistance team on the BANFES (primary education) Project.

Costa Rica: USAID, Peace Corps and the Ministry of Education are collaborating on the School Refurbishment Project. USAID provides funding, and Volunteers provide direct community assistance in project identification, evaluation and follow-up.

Botswana: USAID has funded repairs to, and equipment for a vocational training workshop where Volunteers provide training.

Worldwide: Education Volunteers benefit from USAID SPA (Small Projects Assistance) funding for secondary projects.

Since January, 1988 however, USAID and Peace Corps have been pursuing development of their first worldwide education collaboration -- an initiative in the area of basic education. This effort will primarily involve the use of Peace Corps Volunteers as local advisors in two centrally-funded, multi-country USAID projects: BRIDGES (Basic Research and Implementation in Developing Educational Systems) and IEES (Improving Efficiency of Educational Systems). Use of Volunteers in other Mission sponsored projects will however, also be possible.

The goals of BRIDGES and IEES are to raise the quality of and access to basic education. By providing host country ministries with the tools and training necessary to engage in improved, empirically based educational planning. A key element of these projects is the training of ministry officials in the use of microcomputers for simple analysis and presentation of data.

Under the proposed collaboration, Peace Corps will recruit and train Volunteers with social science degrees and knowledge of microcomputers to assist in transferring skills to Ministry of Education officials at the provincial level. These Volunteers will design and implement computer-related training, assist in coding data and preparing data presentations, and provide other technical assistance as needed.

This collaboration will allow Peace Corps to program Volunteers into well-structured assignments which offer the possibility of greater overall impact on educational systems than the traditional teaching assignments, and enable USAID to expand its technical assistance to the intermediate level where it is most needed. In addition, the degree and duration of technical support to be provided by Volunteers will permit a continuity of assistance and transfer of skills not obtainable by the sole use of short-term technical experts. Thus, both Peace Corps and USAID will be able to better serve the needs of host governments.

## CHINA

SENATOR KASTEN: Tell us about your program in China -- How many Volunteers are there, and what do they do?

LORET MILLER RUPPE: The Peace Corps program in China is still under discussion. There is currently no Peace Corps program in China. At present, the only official exchanges between our two governments have been between (former) Foreign Minister Wu and

Secretary Schultz. They "agreed in principle" to the idea of establishing Peace Corps in China.

Our first delegation of two senior Peace Corps officials may take place during the last 10 days of June. While we have not officially been asked to begin a Peace Corps program in China, we do hope that the first group of Volunteers will number about 40 with another group of about 60 within the first year. The Chinese Government has mentioned English teachers as the skill area needed for the next few years.

## QUESTIONS SUBMITTED BY SENATOR D'AMATO

### VOLUNTEERS

SEN. D'AMATO: Of the kinds of work your Volunteers do in Africa; in agriculture, education, sanitation and health, housing, etc., for which type do you receive the most requests from host countries?

LORET RUPPE: Most of our requests are in the sectors of agriculture and education with a majority of assignments in forestry, fish, community agriculture and forestry extension as well as English, math and science teachers.

SEN. D'AMATO: Have you noted any trends in the last 4 or 5 years? Do you perceive needs in areas which receive less attention than others?

LORET RUPPE: General trends over the four year period as displayed in the following charts show major increases in the sector of small-enterprise development, health, and sanitation as well as in the assignment areas of forestry extension, parks and wildlife management, agriculture education, community agriculture extension, industrial arts, vocational trainers, water sanitation engineers, renewable energy/appropriate technology, business management , cooperatives development, occupational therapy, health nutrition extension, home economics, university English teachers, and unique skills (skilled Volunteers outside of the listed assignment areas). Major decreases or a wide mix of increase or decrease can be found in degreed community services (generalists), fresh water fisheries, farm mechanics, general construction, secondary school English teachers, and math and science generalists.

CHART I

Trainee requests by Sector

| Sector Year | 86 | 87 | 88 | 89 |
|---|---|---|---|---|
| Agriculture | 306 | 399 | 422 | 488 |
| Education | 482 | 437 | 426 | 457 |
| Health-Sanitation | 133 | 144 | 207 | 237 |
| Small-Enterprise Devel. | 61 | 35 | 133 | 106 |
| Rural/Urban Development | 183 | 176 | 131 | 185 |

## CHART II

### TRAINEE REQUESTS BY ASSIGNMENT IN AFRICA: FY86 THROUGH FY89

| AA | Sector | Assignment Area Title | FY86 | FY87 | FY88 | FY89 |
|---|---|---|---|---|---|---|
| 100 | AGR | FORESTRY | 44 | 39 | 56 | 68 |
| 101 | AGR | FRESH WATER FISH CULTURE | 76 | 91 | 82 | 66 |
| 102 | AGR | MARINE COMMUNITY FISHERIES | 0 | 3 | 0 | 0 |
| 103 | AGR | PARKS/WILDLIFE ENVIRONMENT ED | 0 | 0 | 15 | 26 |
| 107 | AGR | COMMUNITY FORESTRY EXTENSION | 15 | 35 | 54 | 67 |
| 110 | AGR | CROP EXTENSION | 15 | 38 | 28 | 30 |
| 111 | AGR | PLANT PROTECTION | 0 | 0 | 4 | 3 |
| 112 | AGR | SOIL SCIENCE | 0 | 1 | 1 | 0 |
| 113 | AGR | AGRICULTURAL EDUCATION | 27 | 23 | 22 | 51 |
| 114 | AGR | AGRICULTURAL ECONOMICS | 4 | 7 | 5 | 7 |
| 115 | AGR | SMALL ANIMAL HUSBANDRY | 0 | 6 | 0 | 6 |
| 116 | AGR | LARGE ANIMAL HUSBANDRY | 11 | 10 | 4 | 12 |
| 117 | AGR | COMMUNITY AG EXTENSION | 106 | 141 | 143 | 138 |
| 118 | AGR | FARM MECHANICS | 0 | 3 | 1 | 7 |
| 119 | AGR | APICULTURE | 8 | 2 | 7 | 7 |
| 120 | RDV | INDUSTRIAL ARTS | 13 | 20 | 9 | 50 |
| 121 | EDU | VOCATIONAL TRAINERS | 16 | 10 | 50 | 16 |
| 122 | RDV | GENERAL CONSTRUCTION | 49 | 44 | 25 | 18 |
| 123 | RDV | MECHANICS | 2 | 2 | 0 | 3 |
| 124 | HTH | PUBLIC HEALTH SANITATION | 37 | 49 | 41 | 53 |
| 130 | RDV | ROAD CONSTRUCTION/ENGINEER | 1 | 0 | 3 | 2 |
| 131 | HTH | WATER SANITATION ENGINEER | 9 | 12 | 22 | 23 |
| 132 | RDV | RENEWABLE ENERGY/APPROPRIATE TECH | 18 | 17 | 29 | 29 |
| 133 | RDV | ARCHITECHTURE | 0 | 1 | 3 | 1 |
| 134 | RDV | URBAN PLANNING | 8 | 0 | 6 | 6 |
| 140 | SED | BUSINESS MANAGEMENT | 33 | 15 | 80 | 62 |
| 141 | SED | COOPERATIVES | 27 | 20 | 44 | 34 |
| 142 | SED | ACCOUNTING | 1 | 0 | 9 | 10 |
| 150 | HTH | NURSING | 29 | 16 | 25 | 31 |
| 151 | HTH | PHYSICAL THERAPY | 3 | 1 | 7 | 4 |
| 152 | HTH | OCCUPATIONAL THERAPY | 0 | 1 | 5 | 7 |
| 153 | HTH | MEDICAL LAB TECHNICIAN | 7 | 4 | 0 | 0 |
| 154 | HTH | HEALTH/NUTRITION | 24 | 27 | 27 | 36 |
| 155 | HTH | HEALTH/NUTRITION EXTENSION | 24 | 30 | 78 | 76 |
| 156 | HTH | DISEASE CONTROL | 0 | 4 | 2 | 7 |
| 160 | EDU | HOME ECONOMICS | 4 | 9 | 11 | 16 |
| 161 | RDV | HOME ECONOMICS EXTENSION | 0 | 4 | 0 | 4 |
| 162 | RDV | COMMUNITY SERVICES/DEGREED | 88 | 78 | 56 | 72 |
| 163 | RDV | COMMUNITY SERVICES/NON-DEGREED | 0 | 0 | 0 | 0 |
| 170 | EDU | EARLY CHILDHOOD EDUCATION | 50 | 49 | 28 | 18 |
| 171 | EDU | ENGLISH TEACHER | 104 | 97 | 90 | 123 |
| 172 | EDU | UNIVERSITY ENGLISH TEACHER | 16 | 8 | 24 | 20 |
| 173 | EDU | SECONDARY EDUCATION/MATHEMATICS | 115 | 113 | 76 | 111 |
| 174 | EDU | MATHEMATICS EDUCATION/GENERALIST | 25 | 21 | 21 | 12 |
| 175 | EDU | SECONDARY EDUCATION/SCIENCE | 126 | 104 | 88 | 108 |
| 176 | EDU | SCIENCE EDUCATION/GENERALIST | 16 | 18 | 11 | 10 |
| 177 | EDU | SPECIAL EDUCATION/GENERALIST | 1 | 1 | 0 | 0 |
| 178 | EDU | SPECIAL EDUCATION/BLIND | 0 | 0 | 0 | 0 |
| 179 | EDU | SPEECH THERAPY | 0 | 0 | 0 | 0 |
| 180 | EDU | BUSINESS EDUCATION | 3 | 5 | 0 | 1 |
| 181 | EDU | SPECIAL EDUCATION/DEAF | 0 | 0 | 0 | 0 |
| 182 | RDV | RURAL YOUTH DEVELOPMENT | 4 | 10 | 0 | 1 |
| 183 | EDU | BUSINESS EDUCATION/BOOKKEEPING | 0 | 0 | 0 | 0 |
| 184 | EDU | LIBRARY SCIENCE | 1 | 2 | 5 | 5 |
| 185 | EDU | LITERACY EDUCATION | 0 | 0 | 0 | 0 |
| 190 | EDU | PHYSICAL EDUCATION | 5 | 0 | 5 | 4 |
| 191 | EDU | TEACHER TRAINERS | 0 | 0 | 17 | 12 |
| 199 | ALL | UNIQUE SKILLS | 24 | 19 | 36 | 73 |
| *** Total *** | | | 1189 | 1210 | 1355 | 1546 |

## QUESTIONS SUBMITTED BY SENATOR DOMENICI

### HOUSING PROGRAMS

SENATOR DOMENICI: The Peace Corps among other priorities helps people to meet basic human needs which you define as -- health, food, water, and education. Can you explain why shelter is not listed as a basic human need? Shelter and other types of building construction are included in various country programs of the Peace Corps.

LORET MILLER RUPPE: Although Peace Corps has had some experience over the years with low-income shelter programs, it has recently given increased attention to this important basic human need. It has, for example, been working closely with A.I.D. and the Cooperative Housing Foundation in Costa Rica to support local housing cooperatives construct 357 self-help rural dwelling units. Peace Corps played an important role in supporting this local initiative. Through a cooperative agreement with A.I.D., an A.I.D. senior housing and urban development officer has been detailed to the Peace Corps to assist Peace Corps' country directors initiate new programs for Peace Corps Volunteers in support of indiginous housing programs. Further, in a recent in-service training program, Volunteers were trained in the use of adobe shelter construction. Given the increasing deficit of affordable, minimally acceptable shelter throughout the developing world, we view this as an important problem area and have included resources in the FY 88 budget to explore how Peace Corps might increase its role in low income shelter development.

SENATOR DOMENICI: The level of trainees qualified to enter Peace Corps service in 1989 will be increased to 3,600. Can you tell us how many of these trainees are likely to be selected to work on the application of new technology applicable to earthen construction of grain storage, housing and similar facilities in Peace Corps countries?

LORET MILLER RUPPE: We do not have Volunteers identified at this time that will be involved in earthen construction. However, invariably Volunteers are asked to become involved in local construction activities. To support these local initiatives, Peace Corps has assembled a collection of technical publications that include references on earthen construction techniques. We have recently received material from the International Foundation for Earth Construction which we will be added to Peace Corps' technical collection. These materials will be made available to Peace Corps Volunteers involved in local construction projects.

SENATOR DOMENICI: Improvements in the use of indigenous soils for construction of walls and structures are now being used in New Mexico by the Interior Department's Bureau of Land Management. Has the Peace Corps examined the applicability of this technique of construction to some of its programs including: school and medical facilities construction, cattle ranching, grain storage, small town development, facilities in National Parks and earthquake resistant housing?

LORET MILLER RUPPE: We were not aware of this technology and have contacted the Interior Department's Bureau of Land Management, and requested details on their recent research on the use of indiginous soils in the construction of buildings. This information will be incorporated into Peace Corps' technical collection and made available to interested Peace Corps Volunteers.

SENATOR DOMENICI: Are any of the returning Volunteers from the earthquake resistance housing project in Yemen available to the Peace Corps to evaluate this new approach to construction applicability to Yemen or elsewhere where earthen construction is traditionally used? Do you maintain a roster of returning Volunteers that is available to employers in need of people with LDC experience?

LORET MILLER RUPPE: Peace Corps' Office of Training and Program Support is establishing a talent bank for all skill areas which includes the names of persons qualified in the area of indigenous housing construction experience including the Volunteers from Yemen and other returned Peace Corps Volunteers with relevant experience. In addition to building a roster of qualified consultants, Peace Corps also maintains close working relationships with A.I.D.'s Office of Housing and Urban Programs and its network of regional officers as well as A.I.D.'s Office of Foreign Disaster Assistance. These offices maintain rosters of experts that can be used to support Peace Corps shelter programs.

In addition to the rosters, Peace Corps publishes a bi-monthly bulletin of job opportunities, called HOTLINE, which is distributed to over 7000 former Volunteers and staff. We encourage employers who need people with experience in less developed countries to place announcements in the HOTLINE.

# AFRICAN DEVELOPMENT FOUNDATION

## STATEMENT OF LEONARD H. ROBINSON, JR., PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

### INTRODUCTION OF WITNESS

Senator INOUYE. Our next witness is the Hon. Leonard H. Robinson, Jr., President of the African Development Foundation.

Ms. RUPPE. A returned Peace Corps volunteer, by the way.

Senator INOUYE. As you can see, the committee is in a good mood this morning.

Mr. ROBINSON. Yes, Mr. Chairman, I note that with pleasure.

Senator INOUYE. It is all yours.

Mr. ROBINSON. Thank you very much, Mr. Chairman, and members of the subcommittee.

### BUDGET REQUEST

I am most pleased and honored to appear before the Subcommittee on Foreign Operations to testify on behalf of the African Development Foundation's fiscal year 1989 budget request.

Mr. Chairman, the Foundation's congressional budget presentation requests an appropriation of $7.140 million for fiscal year 1989. This budget is reflective of the joint budget summit agreement between the administration and Congress. It is exactly $140,000 above last year's appropriations.

We anticipate that approximately 69 percent of the budget, or $4.9 million, will be allocated to the development program side of the ADF budget ledger, with the remainder, or 31 percent, allocated to program support.

It is within the context of this budget request that I will respectively outline what the Foundation will and can be reasonably held accountable to accomplish in supporting grass-roots development projects in Africa in fiscal year 1989.

### ADF CURRENT OPERATIONS

I would like to bring you and the Members of the subcommittee up to date with respect to the current operations of the Foundation. We have ongoing programs in 19 countries with approximately 141 active projects. There has been no expansion into new countries in the past 2 years.

The Foundation has a staff in Washington of approximately 29 individuals. In Africa, the Foundation has on contract four African regional liaison officers based in Nairobi, Dakar, Senegal, Harare, Zimbabwe, and Yaounde, the capital of Cameroon.

In addition, we have a network of approximately 13 country resource facilitators, all African, who are contracted through cooperative agreements to facilitate the acquisition and provision of indigenous technical assistance to ADF assisted projects.

We have established ourselves in 4 short years as a grantmaking organization which is responsive to the needs of disadvantaged Africans, and to our congressional mandate. We have been charged with an enormous task to fuel the capacity of Africans to design, implement, and sustain their own development growth, as well as to support African applied research, document lessons learned, and disseminate this information to other development organizations.

## ADF ROLE IN U.S. FOREIGN ASSISTANCE

Mr. Chairman, much discussion has centered around the Foundation's role in U.S. foreign assistance to Africa and whether ADF's role is uniquely different from other U.S. foreign assistance programs, such as those of the Agency for International Development, Peace Corps, and U.S. PVO's.

ADF's congressional charter, to be responsive to development needs as articulated by Africans, has been legitimized by how receptive African nongovernmental organizations have received and pursued a working relationship with the Foundation. We also enjoy the official support of the African governments in those countries where we operate.

In addition, such countries as Swaziland, Burundi, Chad, Uganda, and Burkina Faso are repeatedly and persistently asking that we initiate program operations in their respective countries.

We are beginning to see a new, more matured Africa emerging from the grassroots, and we believe the Foundation is on the right path to becoming effective partners with the Africans over the long term, thus substantiating ADF's congressionally mandated special role within U.S. development assistance to Africa.

## INDIGENOUS AFRICAN NGO'S

This new Africa is more self-reliant and self-determined. As an example, in the past year alone, indigenous African nongovernmental organizations have collectively united as the Forum for African Voluntary Development Organizations, better known as FAVDO, to become equal partners with northern development organizations and donors.

This new and growing self-determined movement on the part of African nongovernmental organizations marks the beginning of a new era in development assistance to Africa's poor. It also marks the beginning of a new era in relations between development assistance providers from the north and development assistance providers in the south.

PVO's and donor organizations will become, if they are not already, challenged to respond to the needs articulated from the Africans, rather than prescribing development needs and solutions for the development of Africa.

Through partnership with the self-determined development efforts of indigenous organizations and villages, ADF is able to directly target grassroots development that has the potential for providing essential micro-infrastructure to support macro-economic and social development over the long term.

### ADF SUPPORTED PROJECT

The NGK self-help water project in Kenya is an example of a grassroots development project having a substantial impact beyond the village level. And, I might add, one of the three projects cited by the Office of Technology Assessment as having a national impact.

This project, supported by the Foundation, brought together three villages, Njoguini, Gitero, and Kabati, to construct a gravity-fed irrigation system on Mt. Kenya that would provide irrigated water to farmers and villagers for domestic use in the three villages.

Village members from all three villages worked together to construct the trenches for the pipeline, and provided all the labor associated with the construction of the water system.

In addition, villagers raised funds through harambe, or self-help efforts, to match the ADF grant of $250,000 in order to complete the project. The project, upon its completion, has drawn significant attention among national and locally elected government officials who are now considering similar irrigation schemes in Kenya, as well as in neighboring Tanzania.

I might add, Mr. Chairman, this project was a massive undertaking by the villagers. And it was only through their dedication and determination to see the completion of the pipeline that the project succeeded. It is also important to note the Foundation was the only organization to consider funding this important project.

It is within the context of this maturing indigenous self-reliant movement in Africa, and those of smaller villages and cooperative associations, that ADF finds itself fulfilling a special niche which has been created by Congress and the self-determined needs of Africans within U.S. foreign assistance programs to Africa.

### 1989 PROGRAM HIGHLIGHTS

Mr. Chairman, my written testimony highlights several programmatic areas the Foundation will focus on in fiscal year 1989.

These include a credit facility for the training and financing of informal sector businesses and family enterprises in collaboration with the African Development Bank, the funding of small projects through a special policy initiative, targeting technical assistance to grantees, and finally the use of participatory evaluation techniques in collaboration with African nongovernmental organizations skilled in project evaluation.

I will not elaborate on these special initiatives at this time, but would be happy to answer any questions you and the Members may have.

Finally, Mr. Chairman, as you may know, the Office of Technology Assessment has recently completed an assessment report of the Foundation's programs in Africa. Several recommendations have been made, many of which the Foundation will implement according to resource availability.

Let me say from the outset that the Foundation has enjoyed working with OTA, and we have learned a great deal from the assessment process and OTA's final report. We are pleased with the results of the assessment as it clearly documents the Foundation's track record as well as its viability as a development assistance agency.

With strengthened and improved capacity, ADF will be able to be more responsive to the ever-increasing demand throughout Africa. It is important to note that the Foundation has been concerned about many of OTA's findings pertaining to the funding program for quite some time, and has been actively working on solutions to current constraints pertaining to ADF's effectiveness.

My written testimony summarizes highlights of the OTA report, as well as the Foundation's response to key OTA findings and recommendations.

In closing, Mr. Chairman and members of the subcommittee, I would like to stress that the Foundation is committed to maintaining reasonable and minimal overhead expenses, and to ensure that a greater percentage of the Foundation's annual appropriation is allocated to quality development grants.

This concludes my prepared remarks, Mr. Chairman. I would be happy to answer any questions you or the other members may have.

[The prepared statement of Mr. Robinson follows:]

## AFRICAN DEVELOPMENT FOUNDATION

### STATEMENT OF LEONARD H. ROBINSON, JR., PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before the Subcommittee on Foreign Operations to testify on behalf of the African Development Foundation's fiscal year 1989 budget request.

Mr. Chairman, the Foundation's congressional budget presentation requests an appropriation of $7,140,000 for fiscal year 1989. This budget is reflective of the joint budget summit agreement between the Administration and Congress. It is exactly $140,000 above last year's appropriations. We anticipate that approximately 69 percent of the budget or $4,914,000 will be allocated to the Development Program side of the ADF budget ledger with the remainder (31 percent) allocated to Program Support.

Mr. Chairman and Members of the Subcommittee, it is within the context of this budget request that I will respectively outline what the Foundation will and can reasonably be held accountable to accomplish in supporting grassroots development projects in Africa in fiscal year 1989.

Let me bring you and Members of the Subcommittee up to date with respect to the current operations of the Foundation. We are operating in 19 countries, approximately 115 active projects. There has been no expansion into new countries in two years. The Foundation has a staff in

Washington of approximately 29 individuals. In Africa, the Foundation has on contract four African Regional Liaison Officers, based in Nairobi (Kenya), Dakar (Senegal), Harare (Zimbabwe) and Yaounde (Cameroon). In addition, we have a network of approximately 13 Country Resource Facilitators who are contracted through cooperative agreements to facilitate the acquisition and provision of indigenous technical assistance to ADF-assisted projects. We have established ourselves, in four short years, as a grant making organization which is responsive to the needs of disadvantaged Africans, and to our congressional mandate. We have been charged with an enormous task to fuel the capacity of Africans to design, implement and sustain their own development growth as well as support African research, document lessons learned and disseminate this information to other development organizations.

Much discussion has centered around the Foundation's role in U.S. foreign assistance to Africa and whether ADF's role is uniquely different from other U.S. foreign assistance programs such as those of the Agency for International Development (AID), the Peace Corps, and U.S. PVOs. The Foundation, while in its infancy, has been afforded the opportunity through the flexibility of its congressional mandate to experiment with its funding program and to respond at a pace in step with new development concepts developed by grassroots development groups in Africa. ADF's congressional charter -- to be responsive to development needs as articulated by Africans -- has been legitimized by how receptive African non-governmental organizations have received and pursued a working relationship with the Foundation. We also enjoy the official support of the African governments in those countries where we operate. We are beginning to see a new, more matured, Africa emerging from the grassroots and we believe that the Foundation is on the right path to becoming effective partners with the Africans over the long-term.

This new Africa is more self-reliant and self-determined. As an example, in this past year alone, indigenous African non-governmental organizations have collectively united as the Forum for African Voluntary Development Organizations (FAVDO) to become equal partners with northern development organizations and donors. This new and growing self-determined movement on the part of African non-governmental organizations creates a new era in the provision of development assistance from the North to the South. The needs and the problems facing Africa's poor are being given priority attention by African development professionals in Africa who are committed to achieving self-reliant development programs. Private voluntary organizations (PVOs) and donor organizations will become, if they are not already, challenged to respond to the needs articulated from the Africans rather than prescribing development needs and solutions for the development of Africa. Through partnership with the self-determined development efforts of indigenous organizations and villages, ADF is able to directly target grassroots development that has the potential for macro-economic and social impact over the long-term.

The NGK Self-Help Water Project in Kenya is an example of a grassroots development project having a substantial impact beyond the village level (one of three projects cited by OTA as having a national impact). This project, supported by the Foundation, brought together three villages (Njoguini, Gitero, Kabati) to construct a gravity-fed irrigation system on Mount Kenya that would provide irrigated water to farmers and villagers for domestic use in the three villages. Village members from all three villages worked together to construct the trenches for the pipeline and provided all the labor associated with the construction of the water system. In addition, villagers raised funds through harambe self-help efforts to match the ADF grant of $250,000 in order to complete the project. The project, upon its completion, has drawn significant attention among national and locally elected government officials who are now considering similar irrigation schemes in Kenya as well as in nearby Tanzania. I might add that this project was a massive undertaking by the villagers and it was only through their dedication and determination to see the completion of the pipeline that the project succeeded. It is also important to note Mr. Chairman, that the Foundation was the only organization to consider funding this important project.

It is within the context of this maturing indigenous self-reliant movement in Africa and those of smaller villages and cooperative associations that ADF finds itself fulfilling a special niche which has been created by Congress and the self-determined needs of Africans within U.S. foreign assistance programs to Africa. ADF's special niche in Africa will become increasingly important to U.S. development interests in Africa as African governments and non-governmental organizations begin to give higher priority to self-reliant development initiatives growing from within their own countries and communities. The Foundation, because of its independence from short-term U.S. foreign policy directives, enjoys the opportunity to create sustainable relationships with Africans at the grassroots level, thereby generating trust and long-term partnerships with grassroots Africans.

Through the use of African technical assistance providers, African country resource facilitators, African auditors and African field liaison officers, the Foundation is planting the seeds of partnership and sustainability in order for disadvantaged Africans to achieve their desired development progress in the long-term. We believe that ADF's program in Africa will help strengthen the skills and capacity of African professionals in the area of technical assistance and research as well as create a new cadre of people who will be better experienced to assist their countries to develop. In addition, I might add that this extremely important programmatic input is more cost-effective than using expatriate technical assistance and research.

The Foundation plans to highlight the following programs in fiscal year 1989:

The Facility for Financing Informal Sector Businesses and Family Enterprises. The Foundation has initiated negotiations with the African Development Bank to jointly establish a facility that would operate in collaboration with existing local African financial institutions to provide business training and credit to informal sector businesses and family operated enterprises. Pending a signed agreement with the African Development Bank (expected in September of 1988), the proposed facility will initiate operations on a pilot basis in three African countries beginning in fiscal year 1989 for a duration of five years.

The Small Projects Initiative. The Foundation plans to strengthen its support for small, sustainable grassroots development initiatives through its small project policy initiative. In this category, the project's budget must be under $25,000 US, and a funding expectancy of 24 months or less. The Foundation has projected that approximately $450,000 of the budget will be used to fund small projects under $25,000. In addition, small projects will be approved for funding under an expedited procedure which will allow the Foundation to quickly respond to such requests. Examples of small projects include planning grants, feasibility studies, marketing analysis, agricultural implements, short-term training programs, and small community improvement projects.

The Targeted Technical Assistance Program. The Foundation has initiated in fiscal year 1988, and expects to have completely operational in fiscal year 1989, a targeted technical assistance and training program through the use of Country Resource Facilitators. ADF's experience has indicated that while grassroots organizations, villagers and community groups can identify and articulate their development needs, these organizations need advance assistance with technical skills in such areas as project management, bookkeeping, community participation, procurement of goods and services, and problem-solving. In order to best enable ADF's grantees to achieve their desired success in implementing development projects, ADF has identified local technical assistance facilitators (individuals and organizations) which have the capacity to provide ADF grantees with ongoing project assistance. It is expected that this programmatic input will better enable grantees to achieve project objectives as well as establish a cadre of African technical assistance providers throughout Africa.

The Participatory Evaluation Program. The Foundation plans to begin in fiscal year 1988 and to have completely integrated within its development program in fiscal year 1989, a "participatory evaluation" program using African non-governmental organizations skilled in project evaluations to assist ADF's grantees in designing and implementing self-evaluation activities through the project implementation process.

The Foundation will continue to respond to development needs as articulated by grassroots applicants, however, the Foundation plans to allocate project grant funds as follows for fiscal year 1989:

**WEST AFRICA:** The West Africa region is composed of four countries -- Liberia, Guinea, Sierra Leone, Sao Tome and Principe. With the exception of Sao Tome and Principe, ADF currently has active projects in each one of these countries. The Foundation plans to consider a minimum of twelve project proposals and obligate a minimum of $806,400 in the region in fiscal year 1989. Based on previous years' applications, programmatic themes driven by project proposals for the region focus on agricultural production, small infrastructure development and small-scale credit.

WEST/CENTRAL AFRICA: The West/Central Africa region comprises five countries -- Benin, Cameroon, Congo, Ghana and Togo. With the exception of Congo, ADF has active projects in each one of these countries. The Foundation plans to consider a minimum of twelve project proposals and obligate a minimum of $806,400 in the region in fiscal year 1989. In 1987, the development needs as articulated from the region's project proposals were concentrated in the agricultural sector with particular emphasis focused on increased food production for consumption and local marketing, agricultural training using improved technologies, increasing water supply and management, and micro-credit in relationship to increased food production. There will be very little change in the regional development focus in FY'88 and FY'89, however, sectors for funding will continue to be determined by project proposals from the region.

SAHEL/NORTH AFRICA: The Sahel/North Africa region comprises five countries -- Cape Verde, Egypt, Mali, Niger and Senegal. With the exception of Cape Verde, ADF has active projects in all of these countries. The Foundation plans to consider a minimum of twelve project proposals, and obligate a minimum of $806,400 in the region in fiscal year 1989. Programmatic themes articulated from the region continue to be in the following areas: food production, livestock production for consumption and marketing, water management, training and credit and small enterprises.

EAST AFRICA: The East Africa region comprises four countries -- Kenya, Rwanda, Somalia and Tanzania. The Foundation plans to consider a minimum of twelve projects in East Africa and obligate a minimum of $806,400 in the region for fiscal year 1989. Support of micro and small-scale enterprises revolving loan programs will continue to be supported. In addition, project proposals from the region that focus on health and training that may have a long-term self-reliant impact on their communities will be brought forward for funding consideration.

SOUTHERN AFRICA: The Southern Africa region is comprised of four countries -- Botswana, Lesotho, Zambia and Zimbabwe. The Foundation plans to consider a minimum of twelve project proposals and to obligate a minimum of $806,400 in the region in fiscal year 1989. Throughout the region, certain programmatic themes repeatedly surface. Income-generation, technical skill training and new employment projects continue to be major objectives of many of the projects in the region. Serious consideration will be given this year and in fiscal year 1989 to the role ADF can play in funding projects that provide skill training and employment to returning workers from South Africa. In addition, agricultural production activities will also be of considerable importance as the region increases its attempts at food self-sufficiency.

EVALUATION PROGRAM: In fiscal year 1987, the Foundation conducted nine end-of-project evaluations (four in Kenya, four in Mali and one in Liberia). During fiscal year 1988, the Foundation plans to conduct 17 end-of-project evaluations in the following countries: Botswana (2); Lesotho (5); Tanzania (4); Benin (2); and, Togo (4). The Foundation's principle focus during fiscal year 1989 will be to strengthen its participatory evaluation program and disseminate lessons learned to other ADF grantees, African voluntary organizations (NGOs), African governments, as well as to American and European voluntary development organizations (PVOs).

RESEARCH PROGRAM: The Foundation's Fellows Program assists senior African scholars and development professionals who seek resources to independently conduct research on important micro-economic development problems within the mandate of the Foundation. Such scholars and professionals must have demonstrated career commitment to grassroots development through research, teaching or administration. Only African applicants living and working in Africa are eligible for funding under this program. Further, candidates must provide evidence of affiliation with a local institution or organization which endorses the proposal to ensure a degree of dissemination of the final research product. The Foundation plans to fund an additional five Senior Fellows in fiscal year 1988 and 1989. In addition, the Foundation is bringing on-line in fiscal year 1988 the Doctoral Research Fellowship Program which provides assistance to African doctoral students enrolled at U.S. universities who are conducting dissertation field research on development themes that address the needs of the rural and urban poor in Africa. Such research is intended to complement the Foundation's congressional mandate to assist non-governmental grassroots development projects in Africa.

Mr. Chairman, as you may know, the Office of Technology Assessment (OTA) has recently completed an assessment report of the Foundation's programs in Africa. Several recommendations have been made, many of which the Foundation will implement according to resource availability. Let me say from the outset, that the Foundation has enjoyed working with

OTA and we have learned a great deal from the assessment process and OTA's final report. However, it is important to note that the Foundation has been concerned about many of OTA's findings pertaining to the funding program for quite some time and has been actively working on solutions to current constraints pertaining to ADF's effectiveness.

The following is intended to summarize highlights and key findings and recommendations from the OTA assessment report as well as the Foundation's response to major recommendations made by OTA to improve ADF's funding program.

1) OTA recommendations:

a) ADF to clarify roles of staff in their working relationships with applicants and grantees;

b) ADF to improve its social, organizational, technical, environmental, and economic analysis of projects and facilitate better planning by applicants during the project approval process; and,

c) ADF to improve its communication with project grant managers and be a more active facilitator to assist them in identifying problems and resources during project implementation.

ADF response: The Foundation recognizes the need for its program staff to be better skilled in facilitating improved planning by applicants during the project development and analysis process as well as during the project approval and implementation stage. The Foundation, however, seeks to sustain one of the congressional mandates primary tenets: effective local control over project management and related implementation activities. In this regard, ADF sees its project oversight role and responsibility as one of facilitation -- assisting and supporting applicants and grantees quickly and efficiently with locally procured technical assistance and other project related assistance. The Foundation will provide (beginning in fiscal year 1988) training for its program staff in the following areas: project analysis and facilitation skills, technical awareness orientation, and training in economic and small business analysis. The Foundation will also be implementing a new program strategy which calls for a "collaborative project development" approach to analyzing project proposals. This approach will involve the Foundation Representatives, the Foundation's country resource liaison, and an appropriate local technician to collaboratively appraise proposals with the applicants during the pre-funding process.

2) OTA recommendation:

a) ADF to progressively enhance the responsibilities of its African staff in project identification, approval and monitoring.

ADF response: The Foundation agrees with the OTA recommendation to enhance the responsibilities of its African staff. However, most of ADF's African staff were just brought on board at the end of fiscal year 1987. We believe that our field staff need to have more experience and familiarization with the Foundation in order to handle increased responsibilities. In the interim, we have decided to delegate additional responsibility to ADF's field staff in the following areas: screening of new project proposals, conducting project analysis in the pre-funding process, and verification of proposals and grant conditions. In fiscal year 1989, we plan to increase the responsibility of ADF's four Regional Liaison Officers to collaboratively approve small project grants under $25,000 with the Foundation Representatives. These new responsibilities will take place in fiscal year 1988 with the exception of the collaborative project approval which will take place in fiscal year 1989.

3) OTA recommendation:

a) ADF to increase communication with other development organizations, especially other funders and PVOs, in the countries where it has programs. The Foundation should begin to develop country strategies, identifying its niche in each country.

ADF response: The Foundation concurs with OTA's recommendations for increased communication and country strategies. However, with respect to the development of country strategies, the Foundation believes it is extremely important to retain its responsive development posture as mandated by Congress and by doing so to avoid developing country strategies which are not indicative of the needs articulated from the country.

4) OTA recommendation:

a) Streamline the approval process and reduce any unnecessary delays;

b) Conclude agreements with African governments where appropriate;

c) Address issues regarding the scope of its current portfolio of funded projects, e.g., consider funding a more balanced mix of social and economic development activities and projects, and linking more closely its research and funding program.

ADF response: The Foundation concurs with OTA's recommendations in streamlining the project approval process, linking ADF's research program with the project development program, and concluding country accords where appropriate. With respect to the approval process, the Foundation is taking a close look at all areas where delays are experienced. We seek authority from this Committee to forward congressional notifications during the recess periods as well as authority to waive the congressional notification process with respect to small projects allocated in the congressional presentation document. As well, we are looking at streamlining the process internally and will be taking the necessary steps to ensure that we move the approval process as smoothly as possible.

With respect to country accords, we have been actively seeking country accords with African governments since the Foundation became operational in 1984 -- to date we have concluded 11 accords out of 21 countries where ADF has a presence. We are working diligently to obtain operating accords with all 21 countries, where feasible.

With respect to ADF's funding portfolio, the Foundation will be making a concerted effort to fund more women's projects in the areas of vocational skill training, business and project management, and resource conservation projects. In addition, the Foundation is in the process of developing a research strategy which supports the needs of grassroots development projects supported by the Foundation.

**5) OTA recommendation:**

a) ADF to disaggregate project date by gender to determine the degree to which women participate in ADF-funded projects.

**ADF Response:** The Foundation concurs with OTA's recommendation to begin to refine its data collection to include gender disaggregated data. Through this process, the Foundation expects to learn a great deal about the technology choices of women, women's participation in project management, sustainability and decision-making and the resultant outcome of women's participation on project sustainability and achieved development objectives.

In closing, Mr. Chairman and Members of the Subcommittee, I would like to stress that the Foundation is committed to maintaining reasonable and minimal overhead expenses, to ensure that a greater percentage of the Foundation's annual appropriation is allocated to development grants. I am continually looking for budget savings measures in the area of travel and a greater reliance on our African field staff. However, maintaining a "quality" funding program and being able to implement the necessary improvements which have been suggested by the OTA report, are priority considerations in arriving at budget allocation decisions. Cost-savings measures taken in fiscal year 1988 include the elimination of the ADF newsletter, converting contract support staff to full-time equivalent positions, reducing the domestic and international travel budget, and the reduction of GS-levels through attrition of personnel. Additional cost-savings measures are being actively contemplated for the remainder of fiscal year 1988 and will be implemented in fiscal year 1989.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions you may have.

Thank you.

### RECESS

Senator INOUYE. Thank you very much, Mr. Robinson. I would like to call for a very short recess. There is a vote pending upstairs. I will be right back.

[A brief recess was taken.]

### ADMINISTRATIVE OVERHEAD

Senator INOUYE. We will now resume our hearing. You have indicated that approximately 69 percent of your budget will be for programs.

Mr. ROBINSON. Yes.

Senator INOUYE. And 31 percent for support. In looking over the request of the Inter-American Foundation, with the similar type of pressure and budget constraints, the Committee notes that the program support requirement for Inter-American Foundation is about half of yours. About 16 percent as contrasted to 31 percent. How do you justify such a ratio?

Mr. ROBINSON. I think in part, Mr. Chairman, it is a question of economies of scale.

The Foundation's budget has been very limited and constrained since the inception of the Foundation's program back in 1984, and we have not had an opportunity to break out of the low funding cycle in order to reduce the pressure on the Foundation's administrative costs.

We believe that the Foundation, out of necessity, had to put in place from the beginning a number of systems. Those systems cost money. We are in the process of expanding and developing our infrastructure in Africa. Travel costs to Africa are the highest in the world. The cost of operating in Africa are among the highest in the world.

To date the Foundation, for example, has not purchased any vehicles to support our operations throughout the continent. We are in 22 countries and all of our projects are located in remote areas.

We have been relying on the rental and the leasing of vehicles. In many African countries this is very, very costly, particularly in the Sahel. The cost of petrol is very, very high, and they charge a rate per mile which is exorbitant.

In a recent board meeting, I obtained the authority from the board of directors to begin on a pilot basis in two countries in Africa the purchase of vehicles.

But to repeat, the cost of doing business in Africa is quite high. If you look at the history of the Foundation's administrative overhead rate over the past 4 years, we have reduced that rate by approximately 20 percentage points.

Relative to most organizations similar to the Foundation, we think that our overhead rate, given the newness of the Foundation, given the fact that we put into place a core staff of 20 some people 3½ years ago, is reasonable.

Beginning in this fiscal year, we anticipate hiring more African staff. This will help continue to reduce the overhead rate.

## ADF AFRICA-BASED STAFF

To give you an example of the impact of hiring Africans as opposed to Americans to monitor ADF-assisted projects. It costs an average of about $200,000 per person per year to provide for housing and the salaries and other allowances for an American attached to a mission with AID in Africa.

Our four African regional liaison officers, including their office equipment, supplies, the rental of their office space, and transportation, are only costing the Foundation about $204,000 per year.

So there is a considerable savings that we are realizing as a consequence of having made the policy decision to hire Africans to administer our operations in Africa, as opposed to Americans.

In conclusion, I think that our overhead rate, which has been declining, as I said, over the past 4 years by approximately 20 percentage points, is fairly reasonable, given the fact that we are a new agency.

## ADF COORDINATION WITH OTHERS

Senator INOUYE. Do you coordinate your activities with local AID missions?

Mr. ROBINSON. We coordinate to the extent that all of our Foundation representatives, and my senior level staff have standing guidance to coordinate with AID officials on a periodic basis, whenever they are visiting countries AID operates in. This includes the AID mission director and the program officers as well.

It is an information-sharing relationship, if you will.

Senator INOUYE. Only when you visit?

Mr. ROBINSON. Primarily when we visit. But here in Washington, DC, we also coordinate. The AID Assistant Administrator for the African Bureau sits on the board of the Foundation.

My vice president and I about 2 months ago made a presentation to the senior officers in the AID African Bureau to talk about what the Foundation is doing, and to discuss the possibility of collaborative efforts.

We have also over the past years tried to negotiate with AID Washington an arrangement whereby the Foundation might be able to increase its leverage to fund more projects by using Public Law 480 title II reflows to finance grassroots development projects.

AID's legislative office and AID's legal office both concluded, after fairly exhaustive study, that the Foundation would be eligible to receive such reflows. But we have not, to date, been able to negotiate anything successfully, primarily because most of these funds are controlled by the governments themselves and not by the local AID missions.

But we do feel that we have fairly good relationships with the Agency for International Development.

## ADF PROJECTS IN SOUTHERN AFRICA

Senator INOUYE. You indicate in your congressional presentation document that you will continue to develop proposals for southern Africa, geared toward providing technical skilled training for ex-combatants.

Who are these ex-combatants, and what skills are you training them in?

Mr. ROBINSON. Well, we are not training anyone directly, Mr. Chairman. As you know, in countries like Zimbabwe and some of the other front-line states that have been involved in liberation struggles over the years, there are a number of people who remain unemployed.

Of course, in southern Africa you have a large refugee population, primarily flowing from the Republic of South Africa back into Botswana and Lesotho, because in most cases they have been expelled from their jobs.

We are concerned that the Foundation try to be relevant to that situation in southern Africa. And we have indicated that we would be responsive to considering the funding of proposals that have a job training component as the primary objective, whether in welding or in carpentry, in furniture-making, et cetera.

We are trying to be relevant to the unemployment situation in southern Africa, and have indicated to a number of organizations operating in Zimbabwe, Botswana, Lesotho, and Zambia that we would be responsive to looking at programs that have a job training component as a primary focus.

## LOCUST PLAGUE IN THE SAHEL

Senator INOUYE. I asked the Peace Corps about the current locust plague in Sahel. Are you active in this area?

Mr. ROBINSON. No, we have not received any requests from African governments. We are aware of the fact that the locust plague is beginning to swarm across northern Africa and across the Sahara Desert. It is perhaps the worst in this century.

To my knowledge, none of the projects that we have funded in the Sahelian countries or in northern Africa are being affected by the locust plague at all. We do tend to be concerned about the encroachment of the Sahara Desert in many of the villages and projects that we fund in the Sahel areas. But we are not directly affected by the locust plague at this point.

Senator INOUYE. So none of your projects are suffering setbacks?

Mr. ROBINSON. No, and it would be beyond our capacity, quite frankly, Mr. Chairman, to become active in locust eradication programs. I think that the Foundation's project ceiling of $250,000 would prohibit the Foundation from being involved in any sort of aerial spraying because those operations are quite costly.

## PARTICIPATION OF WOMEN

Senator INOUYE. One of the recommendations made by OTA related to participation of women. I have been asked by one of the Members to ask you, what are you doing about this?

Mr. ROBINSON. I think it is important to keep in mind, Mr. Chairman, that OTA only looked at 12 out of approximately 140 some projects. Most of the projects they looked at did not have a particular emphasis on women, and most of those projects were funded early in the Foundation's operations.

While we could certainly do more to encourage the development of projects by the Africans themselves with a special focus or emphasis on women, I do believe, if you look across the funding spectrum or portfolio of the Foundation's projects over the past 4 years, a good percentage of those projects are focused on women in particular.

In Kenya, we have a number of projects that focus on extending credit to women entrepreneurs, particularly in the rural areas. We, in fiscal year 1988 and fiscal year 1989, will step up our activities to try and focus more of our funding efforts toward women's activities, development activities.

In addition to that, we are going to conduct research with African research institutions that will help facilitate the Foundation's efforts in not only funding more projects for women but in finding ways that women can be more integrated into decisionmaking with respect to development projects and management of those projects.

### ADF STAFF EXPERIENCE

Senator INOUYE. What practical business experience or business credentials do members of your staff who are involved in the development of private enterprise have? For example, have any of them been involved in building or been involved in their own small business?

Mr. ROBINSON. I would say, for the most part, Mr. Chairman, our staff related to the analysis of projects in the field do not have business degrees or MBA's.

We did have a Foundation representative for West Africa who had a business degree. But he is no longer with the Foundation.

We rely very heavily upon local or indigenous sources of technical assistance to facilitate the Foundation's efforts. In this area, we have funded a number of projects that have third party revolving loan funds.

In order to do this successfully and to ensure that the proper business background and input from a technical perspective is available, we have provided grants to African organizations that have an established track record, and a reputable track record I might add, in the private sector, in private enterprise, to receive a grant from the Foundation and to then lend those funds to a number of individuals or organizations that are involved in private enterprise activities. Such organizations are responsible for managing these projects successfully.

### ADF RESEARCH PROGRAM

Senator INOUYE. I would like to ask questions on your grant program. You have research grants for doctoral degrees. Do you require that the recipients of these grants, upon receiving the degree, go back to their countries and apply their skills?

Mr. ROBINSON. Yes, we do. That is one of the primary prerequisites of candidacy.

Senator INOUYE. And have these recipients honored that requirement?

Mr. ROBINSON. The Foundation's research program, Mr. Chairman, is only about a year and a half old. And the initial doctoral fellows or candidates have not completed their degrees as of yet.

Senator INOUYE. So none have?

Mr. ROBINSON. None have returned yet. They have not yet completed their doctoral degrees.

### SUBMITTED QUESTIONS

Senator INOUYE. Well, we have several other questions we would like to submit, Senator Kasten and I. And if you would look them over and give us your responses, we would appreciate it very much.

Mr. ROBINSON. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Foundation for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### REGIONAL OFFICES

SENATOR INOUYE: In your congressional presentation, you state that during fiscal year 1987 the Foundation expanded its Africa support network through the addition of Regional Liaison Officers in Dakar, Senegal and in Yaounde, Cameroon. Are these additional personnel needed in light of your excessively high administrative overhead?

LEONARD ROBINSON: Yes. The Foundation's African Regional Liaison officers represent a cost-effective strategy to ensure effective monitoring and project identification in Africa. The Foundation's international travel budget is among the larger budget categories contributing to ADF's higher administrative costs. The Foundation anticipates a reduction in the size of this budget by having in place the local personnel to identify and monitor projects as well as to assist grantees with administrative or technical problems encountered in the implementation of their projects.

SENATOR INOUYE: Do these Regional Liaison Officers work out of existing office space or have you also established regional headquarters?

LEONARD ROBINSON: The Foundation contracts with its Regional Liaison Officers. As part of this contract, funds are provided for them to rent office space if necessary.

SENATOR INOUYE: Would it be possible for the functions assigned to the new Foundation Regional Liaison Officers be performed by local governmental personnel?

LEONARD ROBINSON: No. The Foundation has used local government personnel to advise potential grantees on technical matters such as the design of a water system, construction of a building or an integrated village development project. However, ADF's Regional Liaison Officers must remain autonomous from the local governments to ensure that their assistance to grantees and potential grantees is not biased in any manner. The Office of Technology Assessment (OTA) recommended that the Foundation delegate more decision-making authority to its African Regional Liaison Officers -- such additional decision-making authority involves the authority to approve small projects. The Foundation would not want an ADF regional officer who was also employed by the local government to make decisions on whose projects are approved. Such an arrangement would only invite the mismanagement of funds.

### PROGRAM SUPPORT ACTIVITIES

SENATOR INOUYE: You state in your congressional presentation document that: "During fiscal years 1988 and 1989, the Foundation's primary administrative focus is to increase staff skills in the areas of project analysis (with emphasis on technical feasibility), economic analysis of income generation projects and project monitoring." How will you go about improving staff skills in these areas?

LEONARD ROBINSON: The Foundation plans to contract with various U.S. land grant universities to develop an on-going curriculum in key sectoral areas -- water development, agriculture, business, environment and health. Training in technology choices will be a large component of this comprehensive training curriculum. Staff training will be provided to both the Washington-based and Africa-based staff.

SENATOR INOUYE: What additional resources will you require to make these improvements in staff skills and will they increase your already high administrative cost level?

LEONARD ROBINSON: Based on initial estimates from the various universities, we estimate that training in each sector will cost approximately $10,000. Should the Foundation receive additional appropriations as recommended by OTA to cover such costs, we have allocated $75,000 for a comprehensive on-going training budget. The Foundation is beginning to make further reductions in our program support budget. With additional reductions in program support, we do not anticipate that our overhead rate will increase as a result of a comprehensive staff training program.

SENATOR INOUYE: Do you make use of outside assessors to provide independent pre-funding analysis of Foundation projects?

LEONARD ROBINSON: ADF has a limited history with the use of outside assessors to provide pre-funding analysis of Foundation projects. However, based on the documentation and recommendation made by the Office of Technology Assessment for the Foundation to conduct better and more comprehensive pre-funding analyses of projects, the Foundation has initiated in fiscal year 1988 a small projects initiative which includes the funding of planning grants to assess and develop a project management and feasibility plan of project proposals. These planning grants are carried out by local independent assessors to analyze development project proposals.

SENATOR INOUYE: What percentage of your administrative and project staff is African?

LEONARD ROBINSON: Forty-two percent of the Foundation's administrative and project staff are African.

SENATOR INOUYE: What percentage of your Board of Directors is African?

LEONARD ROBINSON: To date, none of the ADF Board of Directors are African.

## FUTURE GOALS

SENATOR INOUYE: What are your long-term objectives for the African Development Foundation and how would these complement, not duplicate, functions already being performed by other development organizations?

LEONARD ROBINSON: The Foundation's long-term objectives include: (a) improving our track record in funding sustainable grassroots development initiatives which improve the lives of the poor majority of Africans; (b) increase ADF's assistance to disadvantaged Africans in all eligible African countries; (c) improve the Foundation's support for African research and the impact of such research on improving development programs in Africa; (d) improve the Foundation's ability to learn from its funding program and to share lessons learned with other development assistance providers and grassroots Africans; (e) increase ADF's assistance to institutional and human resource capacity building in Africa; (f) improve the Foundation's ability to analyze grassroots development proposals and facilitate increased participation among project beneficiaries in the design and implementation of community development projects; (g) improve the Foundation's ability to assist grantees with appropriate technical assistance in order for such projects to be successful over the long-term; and (h) to continue to support the self-determined needs of disadvantaged Africans in improving their standard of living. Because the Foundation is working at the micro-level of development, we believe that the Foundation's program of assistance is complementary to other development assistance efforts. In addition, we believe that by assisting disadvantaged village groups to learn first hand the development process that they will be better able to work more successfully with other donors to ensure that other donor projects are sustainable and successful as well as to take advantage of larger macro-economic and infrastructure development programs.

## PARTICIPATION

SENATOR INOUYE: Consistent with the recommendation made by the Office of Technology Assessment in its recent report, what steps is the Foundation taking to enhance the participation of Africans in the financial management and planning of the projects it funds?

LEONARD ROBINSON: Project proposals requesting funding from the Foundation must demonstrate active participation of the intended beneficiaries in the design of the project. This includes the establishment of a project management committee and a self-evaluation component to the project. Despite these requirements, OTA found that some project management committee's were not encouraging active participation of beneficiaries in the management and planning of the project. In order to address this issue, the Foundation has contracted with country resource facilitators who have been trained in "participation" to assist the Foundation to monitor projects and assist project managers to encourage active participation among all community members. In addition, as part of the Foundation's planned training program, ADF staff will receive state of the art training in community participation and how to better facilitate enhanced participation among all project beneficiaries.

## PROJECT TARGETS

SENATOR INOUYE: What projects currently being funded by the Foundation are on schedule and how many are ahead of schedule? How does this compare to past years?

LEONARD ROBINSON: The majority of ADF-funded projects have a project implementation time-span of approximately three years. Project delays experienced by the Foundation are most commonly due to disbursement delays and procurement delays. Such delays however, have not resulted in more than a one year extension of the projects' implementation time table. However, the majority of ADF-funded projects are being implemented on schedule. Last year, the Foundation made a concerted effort to try and reduce project delays due to disbursement problems. After a thorough analysis, ADF's office of Administration and Finance concluded that disbursement delays occurred primarily from the time the Treasury's regional disbursement office in Paris makes its disbursement and the time the grantee receives the funds from their local bank. In order to reduce these lag times which have caused delays of upwards of six months, the Foundation requested permission from Treasury Department to use a private bank (Banker's Trust) to make financial disbursements to ADF grantees on a pilot basis. This arrangement is being used in Zimbabwe, Kenya, Somalia, Rwanda, Sierra Leone, Senegal, and Niger. This system appears to be working well. The turn around time from the time Banker's Trust disburses funds to receipt of those funds is approximately six days.

SENATOR INOUYE: In what countries has the government most hampered the progress of Foundation projects either through excessive regulation, bureaucratic inefficiency or mismanagement? How have your project managers overcome some of these obstacles?

LEONARD ROBINSON: To date, ADF has not encountered a problem with African governments hampering the progress of ADF-funded projects. ADF has, however, had difficulty with some countries in obtaining country operating accords with the governments. Such difficulty, however, is largely due to the fact that these governments are not familiar with ADF's operations or operational style. They do not understand that the Foundation is an agency of the U.S. government and yet ADF was created to be independent from other U.S. government agencies such as AID and the State Department. This is not a large problem and as we continue to build upon our track record of funding grassroots development projects we expect that in the few instances where we had difficulty in obtaining operating accords we will obtain such agreements.

## REAUTHORIZATION OF FOUNDATION

SENATOR INOUYE: I understand that the Foundation's current authorization expires in fiscal year 1990 and that a recommendation was made by the Office of Technology Assessment to delete the periodic reauthorization and authorize the Foundation as a permanent independent federal agency. In an era when Congress and the President have joined together to cut back the size and scope of Government, what would be the advantage of establishing the Foundation as a permanent agency?

LEONARD ROBINSON: The advantage, Mr. Chairman, in establishing the Foundation as a permanent federal agency rest primarily with the track record the Foundation has been building since its inception in 1984 to fuel village level economic growth in Africa. ADF grant recipients understand that these funds are granted from the United States. The Foundation's legislative mandate to be responsive to the development needs of the poor majority of Africans living and struggling to survive at the grassroots is central to U.S. foreign assistance programs. Through directly assisting village groups to achieve their desired development progress, the Foundation, while still in its infancy, is able to develop lasting relationships with disadvantaged Africans which builds upon US foreign policy interests to strengthen the bonds of cooperation, friendship and understanding between the people of Africa and the United States.

## PROPOSED WAIVER OF $250,000 CEILING

SENATOR INOUYE: You include legislative language in your congressional presentation for fiscal year 1989 which seeks a waiver of the $250,000 project ceiling in cases where the Foundation determines that such a waiver would further the purposes of the African Development Foundation Act. I understand that OTA supports this recommendation. What types of projects would you like to fund over the $250,000 limit that you now are prohibited from funding?

LEONARD ROBINSON: The Foundation is currently unable to provide funding to individual projects in excess of $250,000 even though circumstances may make a waiver of the funding ceiling desirable in certain limited instances in order for a project to: (1)generate sufficient income to cover operational costs; (2) serve all potential beneficiaries; (3) acquire unforeseen, but essential, inputs to sustain a project; or (4) make alterations in a project because of a flaw in the project's original design. Our research has also indicated that $250,000 may not be sufficient to fund micro-enterprise credit projects if the indigenous lending institution, which is to receive the ADF grant, requires assistance to develop the capacity to serve as a provider of credit resources. In such cases, projects which have received their initial funding from ADF, and have achieved a measurable degree of success from the ADF grant, either will be forced to seek additional funding from another donor, resulting in a potentially serious time delay in the project's eventual completion, or may be abandoned at a critical stage of development -- which is obviously undesirable to ADF and the grantees. In order for the Foundation to fulfill its responsibilities in the partnerships developed between ADF and the grantees, the Foundation has requested waiver authority to exceed the $250,000 limit in such limited cases.

SENATOR INOUYE: Higher project costs undoubtedly would mean higher recurring costs in the out-years. Can this Subcommittee expect that in future years you will be requesting substantial increases in funding to cover these higher recurring costs or will you simply cut back on the overall number of projects you fund?

LEONARD ROBINSON: The Foundation expects to use the waiver authority on a limited basis and continue to keep the average size of the ADF development grant between $55,000 and $80,000.

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## QUESTIONS SUBMITTED BY SENATOR LEAHY

### PROPOSED WAIVER OF $250,000 CEILING

SENATOR LEAHY: The Office of Technology Assessment (OTA) recommends that Congress eliminate the $250,000 project ceiling legislated in the African Development Foundation Act. As well, ADF requests in its congressional presentation for FY'89 a waiver authority for the $250,000 project ceiling. Could you outline for the Subcommittee the rationale behind the legislated $250,000 project ceiling as well as the reasons why the Foundation requests a waiver authority?

LEONARD ROBINSON: The Foundation is currently unable to provide funding to individual projects in excess of $250,000 even though circumstances may make a waiver of the funding ceiling desirable in certain limited instances in order for a project to: (1)generate sufficient income to cover operational costs; (2) serve all potential beneficiaries; (3) acquire unforeseen, but essential, inputs to sustain a project; or (4) make alterations in a project because of a flaw in the project's original design. Our research has also indicated that $250,000 may not be sufficient to fund micro-enterprise credit projects if the indigenous lending institution, which is to receive the ADF grant, requires assistance to develop the capacity to serve as a provider of credit resources. In such cases, projects which have received their initial funding from ADF, and have achieved a measurable degree of success from the ADF grant, either will be forced to seek additional funding from another donor, resulting in a potentially serious time delay in the project's eventual completion, or may be abandoned at a critical stage of development -- which is obviously undesirable to ADF and the grantees. In order for the Foundation to fulfill its responsibilities in the partnerships developed between ADF and the grantees, the Foundation has requested waiver authority to exceed the $250,000 limit in such limited cases.

### OTA RECOMMENDATION FOR BUDGET INCREASE

SENATOR LEAHY: The OTA assessment report recommends that Congress appropriate an additional $500,000 to $700,000 for each fiscal year over the next two years. Could you outline for the Subcommittee where the Foundation would allocate these funds within its budget as well as for what programmatic activities? What is the current demand in terms of requests for assistance from the African Development Foundation?

LEONARD ROBINSON: The current demand for project assistance in terms of funding requests totals approximately $20 million. The following is a budget allocation breakdown of where additional funds recommend by OTA would be allocated based on OTA's findings with respect to ADF's funding program.

### Budget Allocations for Appropriation Purposes

**$500,000 - 700,000 (figures recommended by OTA)**

**$150,000** -- would be allocated for projects which are managed by and benefit women. The Foundation concurs with OTA with respect to the need for ADF to fund more projects which benefit women.

**$150,000** -- would be allocated for projects which are intended to positively affect the environment -- such as reforestation, regenerative agriculture, and renewable energy projects.

**$250,000** -- would be allocated for feasibility studies, environmental impact analyses, technical management plans, and up-front business (basic accounting and supply management) and project management training for grantees.

**$50,000** -- would be allocated for learning and dissemination (evaluations and action research).

**$30,000** -- would be allocated for sector specialists both U.S. and Africa based to assist the Foundation on a contract basis in pre-funding analysis of proposals.

**$70,000** -- would be allocated for staff training. This includes training for all ADF staff both Africa based and Washington based staff. The Foundation plans to initiate an on-going training curriculum in key sectoral areas -- water development, agriculture, business, environment, and health.

### PROPOSED AUTHORITY TO RETAIN LOAN REFLOWS

SENATOR LEAHY: The OTA recommends that Congress provide the Foundation with the authority to retain loan reflows in a revolving loan account. Could you explain the current process the Foundation uses in order to support loan programs in Africa as well as outline the reasons why you need additional authorities in order to make loans?

LEONARD ROBINSON: The Foundation's legislative mandate provides the Foundation with the authority to make loans to African village associations for development purposes. However, the Foundation does not have the authority to retain loan reflows from such loans. Without the authority to retain loan reflows and reprogram such reflows into other development initiatives, any loan repayments would be paid directly to the U.S. Treasury. Currently, the process by which the Foundation supports credit programs in Africa involves the Foundation making a grant to an indigenous financial intermediary to establish a revolving loan account to on-lends ADF funds to village groups or individual micro-entrepreneurs to support local private sector development initiatives. Funds paid back to the local financial intermediary are used to create the revolving loan fund.

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### LITERACY RATES AND BASIC EDUCATION PROGRAMS

SENATOR KASTEN: Many African countries have literacy rates which fall below 40 percent. Do you believe that serious and lasting development can occur in countries when greater than 50 percent of the population can neither read nor write? Do you have any plans or thoughts about basic education where the work of the Foundation is concerned?

LEONARD ROBINSON: The Foundation has been very concerned about Africa's illiteracy rate and ADF has been attempting to address illiteracy with several projects funded by the Foundation. The Foundation encourages on-site training in basic accounting and project management skills for project beneficiaries in order for them to fully engage in the development process. We have also seen a rise in the number of requests for vocational skill training projects and have funded a considerable number of such projects in Southern Africa, particularly in Botswana, Zimbabwe and Lesotho. Recently, a number of such proposals are also coming in from Zambia. In addition, the Foundation is researching the feasibility of funding "How To" manuals for grantees to use and share with other village groups. The Foundation has also funded an African researcher to develop a solar powered video/cassette training program in order to help foster skill training and improve literacy in rural village communities. To date, however, the Foundation has not had the resources to allocate funding to basic primary and secondary education programs. Certainly this area is within the mandate and scope of the Foundation and we will equally evaluate the feasibility of such proposals.

### TRENDS IN REQUESTS FOR ASSISTANCE

SENATOR KASTEN: Your charter mandates that you be responsive to development needs as they are articulated by African host countries. Do you see any trends in the number of requests by those countries for particular kinds of assistance? Do you notice any voids in assistance to African countries left by A.I.D. or the P.V.Os?

LEONARD ROBINSON: Yes, we have seen some trends in the types of request for assistance from the Foundation. For the most part in the West Africa and the Sahel region, the Foundation receives a large number of water, agriculture and cooperative livestock requests. In East Africa, requests generally fall into the income-generation and cooperative business category and in Southern Africa, the Foundation receives a great number of vocational skill training proposals, cooperative business and agricultural income-generating proposals. With respect to voids left by AID and PVOs, yes the Foundation does see tremendous needs which have not been addressed by other donors. Africa's needs are so great that not one agency or donor could possibly have the resources of the access to solve all of Africa's development problems. One of the greatest needs in Africa today is skilled manpower. We believe, that the Foundation's approach to contract with local African technical assistance providers and local community development professionals will provide Africa with a more experienced human reservoir of people to begin to tackle Africa's economic plight.

If the Foundation is able to contribute to Africa's long-term economic recovery, it will be because ADF will have enabled local people to learn and gain experience with implementing their own development projects.

## ADF ASSISTANCE TO NEW COUNTRIES

SENATOR KASTEN: Why haven't you gone into any new countries in the last two years?

LEONARD ROBINSON: As a result of the Foundation's limited budget and the Foundation's desire to establish a track record in the countries where it operates as well as the need to keep our overhead costs in line with our total budget costs, we have made the decision to concentrate our resources on the number of requests from the countries where we are currently operating. This policy makes good sense vis a vie the size of our total budget.

# INTER-AMERICAN FOUNDATION

**STATEMENT OF DEBORAH SZEKELY, PRESIDENT, INTER-AMERICAN FOUNDATION**

**ACCOMPANIED BY:**

**ROBERT MASHEK, EXECUTIVE VICE PRESIDENT, INTER-AMERICAN FOUNDATION**

**DOTTY BURRUSS, BUDGET OFFICER, INTER-AMERICAN FOUNDATION**

### BUDGET REQUEST

Senator INOUYE. Our final witness this morning is the Hon. Deborah Szekely, President of the Inter-American Foundation. Ms. Szekely, it is very nice to have you with us again.

Ms. SZEKELY. Thank you, Mr. Chairman. It is a pleasure to be here.

Mr. Chairman, it is a special honor to appear before the Subcommittee on Foreign Operations to testify on behalf of the Inter-American Foundation. The President has requested a $13.9 million appropriation for the Foundation for fiscal year 1989.

In 1988, the sum was $13 million. This money would be used in combination with an estimated $15 million in Social Progress Trust Funds, and $1.4 million in previously appropriated funds and current year recoveries, yielding a total budget of approximately $30.3 million.

Approximately 83 percent of this sum, or $25.1 million, would be used to support grassroots development in Latin America and the Caribbean. The remainder, $5.2 million, would be allocated for overhead, which in 1987 was 16.5 percent of our total budget.

When I was appointed president of the Foundation, there was some question whether I had sufficient development experience.

Concern was expressed that I did not understand, nor would I be able to cope with, the Foundation's special role as a promoter of grassroots development. Moreover, some said I was new to Washington and might have difficulty adapting to public service.

Close to 4 years have passed since my appointment. My appearance here today underscores that I have adapted successfully. But more importantly, I am happy and proud to tell you that, through the efforts of a dedicated staff and supportive board of directors, the Inter-American Foundation has become an even more dynamic, effective, and risk-taking institution.

My best ideas have come from trips to 26 countries in which I have listened and learned, and brought home the information, ideas, and thoughts of the people with whom we work.

The statement which has been submitted for the record discusses what has been accomplished during my tenure, and how this has helped the Foundation. I believe that the Foundation today plays an ever more important role in U.S. development assistance efforts, and allows us to live up to our mandate of funding, learning, and dissemination.

We work directly with groups of poor people who would otherwise never come in contact with the United States. We enable them to realize their dreams for the future.

We share with those who care, as well as with all the development agencies, what has been accomplished, and how this knowledge might assist them.

## HIGHLIGHTS OF FISCAL YEAR 1989 ACTIVITIES

I would like to highlight the fiscal year 1989 activities, which build upon the accomplishments and innovative processes of the last 4 years.

In fiscal year 1989, the Foundation will work to enhance and define the quality of technical assistance and project management support provided to grantees through the In-Country Support programs.

The Foundation will also continue to explore ways in which the in-country system can promote exchanges of information, learning, and technical expertise among grantee groups themselves.

We will continue to study, learn from, and make the Foundation's hands-on experiences available to others working in development. This will be accomplished by publishing the results of Foundation-supported practical research and our grassroots development journal, conducting project evaluations and documenting the development of the projects themselves.

In addition, we are also producing videos on particularly innovative projects. The Foundation staff will continue to actively participate in conferences and seminars on development throughout the world, so that we may share our experiences and prevent further "reinventing of the wheel."

We hope to promote a wider use of flexible funding mechanisms which include additional cooperative agreements with local services institutions through which micro-grants and loans can be made to start up programs.

We continue to control the average grant size, so that more grassroots organizations can be helped with the Foundation's limited resources. We will give priority to requests from those people, largely ignored by their own governments, such as women, youth, seniors, and Indians.

And we will support self-help assistance that includes training and other activities which generate new income and create employment opportunities for the poor. Last, we will monitor emerging trends in development which are likely to dominate the next decade.

As a risk-taking and experimental agency, the Foundation must and will study these trends and adapt its funding priorities to support new approaches to development.

I would also like to share my chief concern about the Foundation's future. Beyond 1989, the Foundation's greatest challenge will be to cope with diminishing Social Progress Trust Fund resources.

For the past decade, Social Progress Trust Fund resources have represented approximately 60 percent of the Foundation's operating budget, and 80 percent of the funding budget. Since the Foundation first received access to the Social Progress Trust Fund, it has shared the available resources with the Inter-American Development Bank.

Beginning in fiscal year 1989, the total available Social Progress Trust Fund resources will decline sharply, and be depleted by 1994. Therefore, the Foundation's board of directors unanimously adopted a resolution in early 1987, offered by former AID administrator, Peter McPherson, which requests all remaining Social Progress Trust Fund resources available during 1989 and in subsequent years.

The current AID administrator, Alan Woods, has promised to make every effort to achieve this outcome. We will do all we can to support him in the upcoming negotiations, and will keep the committee informed of their progress.

Serving as President of the Foundation has been, without doubt, the most important experience of my life. The frustrations are enormous, the number of ill-fed children overwhelming. However, the enthusiasm, dedication, and determination of the staff have been inspiring.

Although much has been accomplished, very, very much more needs to be done. May I add my delight in your interest in the American Indian, and Senator Lautenberg's comment regarding a Peace Corps for the United States.

In my annual message, I have called for an Inter-American Foundation for the United States. We need responsiveness to alternative ideas, offering new solutions to problems that often overwhelm us.

## FOUNDATION WORK WITH INDIANS

Regarding Indians, 80 percent of the Inter-American Foundation's portfolio in Ecuador and Peru is devoted to Highland Indian projects. And last year we funded a hemispheric conference among Indian leaders.

We spent a lot of time helping them try to find ways to solve their problems, and these ideas are very applicable to finding ways to help our Native Americans. We work with Indian groups in Colombia, Guatemala, Argentina, Paraguay, and Bolivia, and have found through some of the networks which we have funded that they share information, common problems and new ideas.

And we find that health and education are most important. We also support their cultural traditions, crafts, music, folklore, and provide financial assistance for their practical self-help ideas.

My travels on behalf of the Foundation have led to major innovations. I'm particularly interested in Indian groups and actually, I was visiting a little Indian village in Peru, and the villagers dug up this Inca pin on the day I was there. They had never found one before, so they decided the Virgin had sent it for me.

So, your concern and dedication to the American Indian is important to us for it relates to what we are trying to do. We stand ready to answer any questions, and to do anything we can to cooperate with this committee. Thank you for your attention.

I forgot to introduce Bob Mashek, who is the Executive Vice President of the Inter-American Foundation.

[The prepared statement of Ms. Szekely follows:]

# STATEMENT OF
# DEBORAH SZEKELY, PRESIDENT
# OF THE
# INTER-AMERICAN FOUNDATION

## INTRODUCTION

Mr. Chairman, I am again honored and delighted to appear before the Subcommittee on Foreign Operations to testify on behalf of the Inter-American Foundation.

The President has requested a $13.9 million appropriation for the Foundation for Fiscal Year 1989. This sum would be used in combination with an estimated $15 million in Social Progress Trust Funds (SPTF) and $1.4 million in previously appropriated funds and current year recoveries yielding a total budget of approximately $30.3 million. Approximately 83 percent of this sum or $25.1 million would be used to support grassroots development in Latin America and the Caribbean. The remainder, $5.2 million, would be allocated for overhead expenses.

When I was appointed President of the Foundation, some questioned whether I had sufficient development experience. The concern was expressed that I did not understand nor would I be able to cope with the Foundation's special role as a promoter of grassroots development. Moreover, some said I was new to Washington and might have difficulty adapting to public service.

Close to four years have passed since my appointment. My appearance here today underscores that I have adapted successfully. But more importantly, I am happy and proud to tell you that through the efforts of a dedicated staff and supportive Board of Directors, the Inter-American Foundation has become an even more dynamic, effective, and risk-taking institution.

I would, therefore, like to share with you what has been accomplished during my tenure and how this has helped the Foundation to realize its potential. For I believe that the Foundation today plays an ever more important role in U.S. development assistance efforts by:

1) Reaching poor people who would otherwise never come in contact with the United States;
2) Helping them to realize their dreams for a better life; and
3) Sharing with those who care what has been accomplished and how this knowledge might assist them.

## THE FOUNDATION'S ROLE IN PROMOTING GRASSROOTS DEVELOPMENT

Before discussing the specific accomplishments of the past four years, I would like to discuss the growing importance of private development organizations and grassroots groups in Latin America and the Caribbean and why the Foundation continues to support and learn from their intitatives.

When the Foundation was established in 1971, there were approximately 250 indigenous private development organizations in Latin America and the Caribbean. Today, there are more than 4,000 such organizations and their number continues to increase. For 17 years, the Inter-American Foundation has helped these organizations - of, by, and for the poor - to grow, thrive, and multiply. And they have grown indeed into an increasingly significant pluralistic force in nations where, for the most part, until recently democracy was but a dream.

Many observers consider these organizations to be tangible evidence that democracy is taking root in their societies. As in this country, they demonstrate that governments cannot be responsible for all matters relating to economic and social well-being. Rather, they represent the continuing efforts of concerned citizens, professionals and volunteers, to tackle the serious community problems, offer viable solutions, and fulfill the aspirations of disadvantaged people.

These organizations have changed their societies by promoting democratic processes at the local and national level. And they have changed people by showing them ways to take the initiative and assume more responsibility for their own lives.

In addition to private development organizations, the number of grassroots groups - cooperatives, women's and youth clubs, neighborhood associations, mutual aid societies, church committees - have also grown astronomically. These groups pool their resources to improve their standards of living and quality of life. They perform a myriad of activities such as establishing community schools, cultivating urban gardens, marketing produce, and saving for capital investment.

I do not think that there is another institution that has for so long supported such a diversity of private development organizations and grassroots groups throughout Latin America and the Caribbean, as has the Inter-American Foundation. And the Foundation remains the only U.S. Government development assistance agency active in six of Latin America's largest countries which account for 75 percent of the region's population.

I believe that the Foundation continues to merit your support because it has so consistently represented the humanitarian instincts and spirit of the American people: throughout the region; in all activities that poor people think important enough to work for and spend their own meager resources on; and at every level of society from which these organizations derive their support.

When viewed in this light, the Foundation's role is manifestly clear: to help these organizations and grassroots groups gain strength and learn from their achievements and errors; to assess their impact, individual and cumulative; and to share what is learned with others interested in self-help development. The Foundation will continue to strive to do all of this in a responsive way by selectively supporting the initiatives taken by these organizations and by assisting them to make their experiences known to others working in development.

## LOOKING BACK AT THE PAST FOUR YEARS

I would now like to turn to the specific accomplishments of the past four years. In doing so, I give great credit to the Foundation's first two Presidents, Bill Dyal and Peter Bell, and its first two Chairmen, Gus Hart and Peter Jones. These men did a truly wonderful job promoting the Foundation's mission and consolidating its base of support throughout the hemisphere. Their accomplishments made it possible for Victor Blanco, the Foundation's current Chairman, and me to concentrate on specific improvements which we identified as critically important to fulfilling the Foundation's mission.

### In-Country Support Systems

When I first arrived at the Foundation, I was struck by the small size of the staff - only 67 people. Less than thirty of that number were Foundation Representatives who travel to the field four times annually to review more than 800 proposed and ongoing projects. Hard pressed as they were, the Foundation Representatives were unable to fully monitor and evaluate all the projects in their country portfolios. Moreover, in a number of cases our grantees experienced serious problems affecting their chances for success which could have been solved or avoided had the Foundation been aware of their needs.

The In-Country Support Systems (ICS) were created so that the Foundation, despite its limited staff, would be able to provide useful, non-intrusive assistance to grantees in need. These systems are administered by local nationals, skilled in grassroots development, who visit grantees periodically to learn how they are performing and whether they need special assistance or particular kinds of training. Now operating in 20 countries, the ICS systems have helped the Foundation to improve its project monitoring and evaluation. They have also created new opportunities for grantees to share information and technical expertise with each other.

## Increased Attention to Learning and Dissemination

The Foundation is a very small agency with an enormous task. Clearly, it cannot solve the region's economic and social problems with its meager resources. But it can make a substantial contribution by increasing understanding of grassroots development and documenting successful efforts when and where they occur. In this way, both governmental and non-governmental funders can benefit from our experience working with the poor.

To make this possible, I have made the Foundation's learning and dissemination efforts one of my highest priorities. Specific results include:

First, the Foundation's journal, Grassroots Development, now reaches 15,000 readers and should have a circulation of 20,000 by 1991.

Second, the Foundation has launched an ambitious program of thematic studies and project evaluations that will be used by grantees, Foundation staff, and other development professionals to assess the merits and performance of grassroots projects.

Third, to exploit the educational potential inherent in many projects, the Foundation has initiated a "Grassroots Development Video Series" which highlights particularly noteworthy prohjects. Three videos have been produced. To date, they have been viewed by more than 1.2 million people in the United States, Latin America and the Caribbean. In addition, the videos have been shown in more than 2,000 high school and college classrooms to approximately 17,000 students.

Fourth, the Foundation's fellowship program has been restructured to place more emphasis on practical research concerned with grassroots development. A special directory has been published which lists all Foundation fellows and their research projects - a rich human resource pool for the development community.

In-Country Funds

The Foundation has done a wonderful job of working with intermediary organizations that provide needed services to the poor. And it has become more effective at working directly with local community organizations composed of the poor. However, there have been many emerging community groups which the Foundation could not reach because their assistance needs were too small to be handled cost-effectively.

Therefore, the Foundation entered into cooperative agreements with local private development organizations to establish In-Country Funds (ICF's) from which emerging groups could receive timely amounts of assistance not to exceed $5,000 annually. Micro-grants and loans could be made to purchase equipment and materials, improve management, organizational, technical and marketing skills, and conduct feasibility studies. Since initiating this program two years ago, ICF's have been established in Argentina, Bolivia, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Panama, and Peru. Approximately 130 grants and loans averaging $3,850 each have been made under this program, benefitting emerging groups who otherwise could not be reached by the Foundation.

### Average Grant Amount

From 1971-1984, Foundation grants averaged $105,000. Recognizing that more grassroots groups needed to be reached with our limited funds, I have worked with the staff to reduce the average grant size. This effort has resulted in an average FY 1987 grant size of $67,000. The reduced grant size has also complemented the Foundation's efforts to leverage maximum counterpart contributions from other local and international sources.

### Action Grants and Clustering

The economic and social problems of Latin America's poor demand creative solutions that respond to their real needs. Working closely with the staff, increased emphasis has been placed on funding projects that create jobs, raise income levels, improve healthcare, and educate children and adults. This means that substantially fewer grants are made to support theoretical research on poverty and development unless it can be used to address immediate needs. Most grants are also being clustered in closer geographic proximity to each other. As a result, Foundation staff and country nationals who provide technical assistance can assess and respond more rapidly and cost-effectively to a broader range of grantee needs. Likewise, more grantees are able to visit, learn from, and provide support to one another. This not only benefits the groups involved, but strengthens community interest in these projects.

## Grant Processing Time

Compared to larger development agencies, the Foundation has always responded to requests for assistance in relatively short periods of time. When I became President, it took approximately eight months to review, approve, and disburse grant funds for a successful proposal. The response time was good but not good enough. Our grantees often cannot wait eight months for desperately needed assistance.

By redesigning the processing procedures for proposals, the response time has been reduced to four months. This has been accomplished without diminishing the high standards of review to which all proposals are subjected. I do not believe that there is another development agency which has a better record in this regard.

## Networking in Latin America and Washington

According to its Congressional mandate, the Foundation was created, among other purposes, to "strengthen the bonds of friendship and understanding among the peoples of this hemisphere..." To me, this means that the Foundation should, as often as possible, support opportunities for grassroots groups and intermediary organizations to learn from one another. This is the most effective way to improve skills, find practical solutions to problems, and share experiences. Among other purposes, networking grants have been used by Latin

American and Caribbean organizations to sponsor conferences on issues that deal with their most pressing concerns. These exchanges revitalize and stimulate grantees to make better use of their limited funds and to find more effective ways to tap the abundant human resources available to them.

But grantee networking isn't the only kind of information sharing with which the Foundation should be concerned. Shortly after becoming President, I asked the staff how they communicated informally with other development agencies in Washington. Curiously, there seemed to be no regular means for this kind of valuable interchange. Therefore, I initiated monthly breakfast meetings at which representatives from governmental and non-governmental development agencies can discuss issues of common interest related to grassroots development.

Over the past three years, approximately 25 such meetings have been attended by representatives from the Agency for International Development, the Inter-American Development Bank, the Department of Commerce, Save the Children, Peace Corps, the American Institute for Free Labor Development, the Organization of American States, and the Pan American Development Foundation, among others. These meetings have been enormously helpful in learning about each other's programs and sharing common concerns and problems.

## The End Result

Taken together, I believe that the accomplishments of the past 44 months have enabled the Foundation to do its work more creatively, effectively, and efficiently. This means, of course, that the organizations and people whom we support are better able to do their work and learn from their experiences. And that, in the end, is the greatest accomplishment of all.

## LOOKING AHEAD TO 1989 AND BEYOND

### The Fiscal Year 1989 Program

The Foundation is planning a Fiscal Year 1989 program based on a total budget authority of $30.3 million consisting of $13.9 million in appropriated funds, $1.4 million in previously appropriated funds and current year recoveries, and $15 million in Social Progress Trust Fund resources.

You have already received a detailed presentation on the Foundation's FY 1989 program. Therefore, I will only highlight some of the key activities planned which build upon the accomplishments of the past four years. These include:

- Enhancing and refining the quality of technical assistance and project management support provided to grantees through the In-Country Support (ICS) programs. The Foundation will also continue to explore ways in which the ICS system can promote exchanges of information and technical expertise among grantees themselves.
- Continuing to study, learn from, and make the Foundation's experiences available to other agencies working in development. This will be accomplished by selectively publishing the results of Foundation supported practical research in our Grassroots Development journal, conducting project evaluations, and documenting project experiences. The Foundation will also produce videos on particularly innovative projects which can be used by high school and college educators. Foundation staff will continue to participate in conferences, seminars, and other public fora where their experience can be shared.
- Promoting a wider use of flexible funding mechanisms which include additional cooperative agreements with

local service institutions through which micro-grants and loans can be made to start-up groups.

-- Continuing to control the average grant size so that more grassroots organizations can be helped with the Foundation's limited resources. Efforts to leverage maximum counterpart contributions from local and international sources will also continue.

-- Giving priority to those requests for self-help assistance that include training and other activities that generate new income and create employment opportunities for the poor.

-- Monitoring emerging trends in development which are likely to dominate the next decade. As a risk taking and experimental agency, the Foundation will study these trends and adapt its funding priorities to support new approaches to grassroots development.

The Social Progress Trust Fund

I would like to share with you my chief concern about the Foundation's future. Beyond 1989, the Foundation's greatest challenge will be to cope with diminishing Social Progress Trust Fund (SPTF) resources. For the past decade, SPTF resources have represented approximately 60 percent of the Foundation's operating budget. The remaining 40 percent have consisted of Congressionally appropriated funds. Clearly, the SPTF has been a lifeline of support for the Foundation's activities.

Since the Foundation first received access to the Social Progress Trust Fund, it has shared the available resources with the Inter-American Development Bank. The Bank and the United States Government negotiate this allocation of resources. The Foundation has never received more than 50 percent of the SPTF resources available in any given year.

Beginning in FY 1989, the total available SPTF resources will decline sharply and be depleted by 1994. Therefore, the Foundation's Board of Directors unanimously adopted a resolution in early 1987, offered by former AID Administrator Peter McPherson, which requests all remaining SPTF resources available during 1989 and in subsequent years. This resolution was communicated to AID, which acts as the U.S. trustee for the SPTF. The current AID Administrator, Alan Woods, has promised to make every effort to achieve this outcome. We will do all we can to support him in the upcoming negotiations and will keep the Committee informed of their progress.

## CLOSING

I want to again express my deepest appreciation to the members of this distinguished Committee for supporting the work of the Inter-American Foundation. Serving as President of the Foundation has been one of the most rewarding experiences of my life. The enthusiasm, dedication, and determination of the staff have been inspiring. Much has been accomplished, but so much more needs to be done. I am confident that with your continued support the Foundation will make even greater contributions in promoting the self-help efforts of the poor.

Mr. Chairman, I will be delighted to answer any questions that you and the members of this distinguished Committee may have. Thank you very much.

## BRAZIL

Senator INOUYE. It is nice to see you. In your remarks, and I quote you, to work directly with groups of poor people who would otherwise never come in contact with the United States.

Keeping that in mind, I am just wondering why we are spending money in Brazil, where Brazil is one of the wealthiest nations in South America.

Ms. SZEKELY. You cannot believe the poverty in Brazil. You cannot believe the number of poor children. They may be wealthy in areas and in pockets. It is much like in our own country.

But there are many of the poorest people of any country, and I have seen probably the worst living conditions, other than Peru and Ecuador, in Brazil.

Senator INOUYE. This grant that you provided, this Brazilian Center for Analysis and Planning, which is not a large amount, it is $65,000 plus. What do they hope to do with that grant?

Ms. SZEKELY. In Brazil we have been doing a great deal of networking, getting the groups to talk to one another. In a way, it is enlarging people power. And so basically, these are studies that can be used as a basis for networking information, finding what can be done.

Their government provides some health care, but it does not really get down to the grassroots. That is part of the project. I do not have all the details, and I would be very glad to furnish them.

Senator INOUYE. This is a very small grant. Ordinarily, we would have missed this, because it is just $9,000, and it is to the Toledo Maya Cultural Council. And you are saying that you will hire two men, one Mopan and the other Kekchi.

How do you hope to get any meaningful results from a $9,000 grant?

Ms. SZEKELY. I do not think you can say many of our grants are really meaningful on the national level. It will help the group. It will get people to help them train, people to help teach them.

And so these are salaries for two men to go out and share what they have learned, to help individual people out of their misery.

Senator INOUYE. Do you think it will work?

Ms. SZEKELY. Yes. And that is the advantage. It is risk-taking. But we have to take risks. I do not know how else we are going to help them. It will be in little things, in little grants.

The average grant of the Foundation, since I have been President, has decreased to $60,000 from $105,000, because we find that smaller grants, smaller efforts, are more effective in carrying out our kind of grassroots development. It is much more hands-on and people to people.

## SOCIAL PROGRESS TRUST FUND

Senator INOUYE. Last year this committee was told that the restricted access to the social progress trust fund has caused your foundation to experience much difficulty in making use of all the fund resources available to it.

What undisbursed balances are presently held in this trust fund?

Ms. SZEKELY. At one time it was Nicaragua. But the Nicaraguan money went way down, and in El Salvador we are doing very well.

Mr. MASHEK. Are you referring to the current agreement?

Ms. SZEKELY. We had funds we could not spend in Nicaragua and El Salvador.

Senator INOUYE. I just want to know how much money is left.

Ms. SZEKELY. In the total fund, the global fund?

Senator INOUYE. And what do you propose to do with that?

Ms. SZEKELY. At the end of fiscal year 1988, there will be $7 million.

Senator INOUYE. And how do you propose to use that?

Ms. SZEKELY. We use it to make grants. This is 80 percent of our funding—the Social Progress Trust Funds.

And this is the amount that we are trying to renew, because the Foundation started with $50 million of SPTF. And every 3 years it has been replenished, and it is a major source of money for the Foundation.

But it can only be applied in certain countries where there are reflows. But if you would allow me to ask my budget officer, Dotty could give you details. May I?

Mrs. Burruss, would you please answer?

Ms. BURRUSS. Basically, at the end of fiscal year 1980, we will have $7 million that we will have drawn down on a 3-year contract that will be available to be used in future years.

Of that amount, because of the location of those currencies, $3 million we expect to use in fiscal year 1989, a little over $3 million will be part of the 1989 budget, the remainder of it. Even though it is usable money, it is just too much in one particular country. So we will carry it in fiscal year 1990 and future years.

Primarily, most of the money is in El Salvador. The money in Nicaragua is not usable because if we draw it down, the value will be so little that it is not really worth our drawing it down at this point.

So we have excluded that in terms of our calculations, in terms of the overall program.

Ms. SZEKELY. The money in El Salvador to date for fiscal year 1988, we have made four grants and three supplementary amendments that total $743,000. So we are working very successfully there.

Senator INOUYE. With all the difficulties you are having in gaining access to these funds, will you be coming to us for additional funds?

Ms. SZEKELY. If we cannot succeed, the new Administrator at AID, Alan Woods, has been very helpful. He is working on it.

I have had lunch with Jose Casanova from the Inter-American Development Bank. And everyone is sort of saying that we will be able to get the Social Progress Trust Funds. But we do not know this for a certainty, and it will be a very grave problem since, as I mentioned, 80 percent of our funding comes from Social Progress Trust Funds.

So we will continue to pursue these funds with total energy. But otherwise——

Senator INOUYE. We have several questions, and most of these are very technical in nature. If I may, I would like to submit them for the record.

Ms. SZEKELY. I would appreciate that.

Senator INOUYE. Finally, just a question on the type of activities your Foundation is now supporting.

There are several types of tax exempt foundations that you support. What types of activities are involved in the tax exempt——

Ms. SZEKELY. You are talking about Latin America?

Senator INOUYE. Yes.

TYPES OF GROUPS SUPPORTED BY THE FOUNDATION

Ms. SZEKELY. The Foundation funds regional, what we call intermediary organizations. These are the organizations of professionals, very often with volunteer boards, much like we would have in the United States, who are interested in the poor, and who want to help.

And they are doing an exemplary job, because they are sort of rungs of a ladder, who communicate with government and with the very poor. So they are able indirectly to affect government, which the very, very poor have difficulty doing in their countries.

So the intermediary organizations are very important to our total plan of action.

Senator INOUYE. Have you had an opportunity to discuss the needs of your Foundation with the new president of the Inter-American Development Bank?

Ms. SZEKELY. No. I have not met with him. I just had lunch this last week with Mr. Casanova and told him I would like very much to do so. And he was not terribly optimistic, but he said he would try.

Senator INOUYE. I would hope that he would be pleased to meet with you.

Ms. SZEKELY. I will do my best.

Senator INOUYE. Well, as you may have noted in my first question to the African Development Foundation, we have been impressed by the ratio of project versus administrative costs.

Ms. SZEKELY. We are a very good buy.

Senator INOUYE. What percent of your total budget is spent for the development in the Caribbean versus the rest of Latin America?

Ms. SZEKELY. I know the English Caribbean is $800,000, roughly 10 percent.

Senator INOUYE. Roughly 10 percent in the Caribbean?

Ms. SZEKELY. Yes.

SUBMITTED QUESTIONS

Senator INOUYE. Well, as I said, I would like to submit for your consideration and response our questions. With that, I thank you very much for joining us this morning. You have been very helpful.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### RECURRING PROJECT COSTS AND NEW TECHNOLOGIES

SENATOR INOUYE: In the grant proposal notifications you send to this Subcommittee, rarely, if ever, is mention made of the long-term costs of projects you begin and how their recurring costs will be supported.

Do you ever make assessments of recurring costs and do you evaluate the future burden which new technologies may pose to rural communities?

MRS. SZEKELY: The "grant proposal notifications," or "Public Statements," sent to your Subcommittee are brief descriptions of new projects only. Given the summary format of the Public Statements, a more detailed analysis of such issues as the long-term costs and attendant sustainability is usually not included.

Nevertheless, the full "Project Record" that Foundation Representatives prepare for each new grant, and each supplemental grant or amendment, includes an analysis of the pro's, con's and risks related to the IAF's funding role.

In this regard, the Foundation always gives serious consideration to the issue of: "After the IAF money runs out, then what?" This aspect of our analysis involves careful scrutiny of the qualifications of the people involved, levels of support from other funders, counterpart contributions from the people themselves, and the intrinsic logic of the project.

Similarly, the introduction of "new technologies" is also an integral part of project analysis. For many grassroots groups, these technologies can take the form of an ice-making machine for artisan fishermen, a new lathe for a carpentry shop, or a gasoline engine for a water pump. In all cases, the new technology requires another level of expertise and access to parts for continued maintenance. Are qualified people trained in engine repair? Are there parts supply stores in the area? Will money be available to assure continued operation? All these questions are addressed during the "review" of each project and included in the "project record."

Only if the IAF's internal review committees are assured that new technologies will not place an undue burden on community groups, will the projects be approved.

### TAXATION

SENATOR INOUYE: What types of activities does the Foundation fund which are tax exempt?

MRS. SZEKELY: While specific activities are not, in themselves, tax-exempt, the Foundation provides funds for many entities that have tax exempt status, including cooperatives, universities, agricultural schools, foundations, business and professional associations, and community organizations.

SENATOR INOUYE: What is the ratio of tax exempt projects funded by the Foundation as against those which are not tax exempt?

MRS. SZEKELY: Nearly all the organizations funded by the Foundation have a tax exempt status. As indicated in the "Public Statements" which are forwarded to your Subcommittee, these organizations have been legally incorporated and recognized by local governments as "Private, non-profit" institutions.

Although exact figures are not kept on "tax exempt" activities supported by the Foundation, it is estimated that spproximately 90% of the entities assisted by the Foundation, have tax-exempt status.

SENATOR INOUYE: Do you ever measure the cost effectiveness of your grants on the basis of their long-term tax implications for the recipients?

MRS. SZEKELY: Cost effectiveness is always an important issue when IAF staff review a project. In this regard, the duty free status of many development organizations contributes to reduced overhead costs and reduced expenditures by the IAF.

As well, rural production and marketing cooperatives are tax exempt and can, consequently, retain a greater portion of the earnings for future investments, for education programs, and for declared dividends among the grassroots membership.

SENATOR INOUYE: What is the range of tax liabilities usually incurred by the recipient when the Foundation initiates a new agricultural, industrial or marketing program on a rural cooperative in Latin America?

MRS. SZEKELY: Because of the tax-free and duty-free status given to legally recognized cooperatives in the Latin America and the Caribbean, the tax liabilities incurred are, to our knowledge, negligible.

## DEBT CRISIS

SENATOR INOUYE: In its 1987 annual report, the Inter-American Development Bank painted a gloomy picture of Latin America's economic situation. Things appear to be getting worse in Latin America, not better despite all the attempts at development in recent years.

What is your assessment of the situation?

MRS. SZEKELY: Although economic and social conditions have worsened for the vast majority of people throughout Latin America and the Caribbean, there is also strong evidence of growing creativity, resilience, and solidarity among the emerging non-governmental organizations and grassroots groups which are involved in designing, implementing, and evaluating their own development programs. The Foundation will continue to do all it can to support this important movement.

SENATOR INOUYE: Where do you believe the Foundation has made a difference in not only the quality of life of the existing generation of Latin Americans, but also in the long-term prospects for economic growth?

MRS. SZEKELY: Whereas perhaps 400 non-governmental organization's (NGO's) existed when the Foundation began operations in 1971, more than 5,000 such private organizations are now working in Latin America and the Caribbean with and for the betterment of marginal peoples. For the past 17 years, the Foundation has played a substantial role in supporting these private groups in their efforts to find pragmatic solutions to a wide range of problems affecting the poor.

This has led to a new level of organized, enlightened, and pragmatic responsiveness among the poor. Such private efforts are frequently less politicized and bureaucratic than government-sponsored programs, and more responsive to the communities they "serve". Thus, even as Latin America continues to face serious economic problems, many of the region's poor are now less likely to wait for others to resolve their problems. Rather, the poor are participating in self-help programs designed and implemented with their direct involvement.

SENATOR INOUYE: Do you believe the Foundation can play a role in helping Latin America out of its debt crisis?

MRS. SZEKELY: Given the magnitude of the problem, it would be unrealistic to assert that the Foundation, with such a comparatively small budget, can play a role in helping Latin America out of the debt crisis. However, many of the local programs supported by the Foundation offer practical solutions to some of the economic and social problems which have contributed to the economic crisis.

Thus, approximately 80% of all Foundation grants support, directly and indirectly, the productive activities of low-income beneficiary populations such as campesino groups, urban small businessmen, female artisan networks, fishing cooperatives, and manufacturing or marketing associations.

Foundation funding is used to provide technical assistance, training, and credit for production, marketing, and commercial activities in poor communities. Such programs give small urban and rural businesses access to needed financial resources and to the skills needed to enhance management, quality control, and marketing capabilities.

Equipped with these needed economic resources and business skills, grant beneficiaries have contributed to their economies by generating employment and income, increasing export capabilities of non-traditional products, attracting foreign exchange to their countries, and diminishing rural migration to urban areas.

## BRAZIL PROJECT

SENATOR INOUYE: On March 18th, this Subcommittee received notification that a proposed grant of $148,441 was to go to the Asociacao Crista de Base (ACB) in Brazil. According to your proposal: "ACB will streamline and increase its technical assistance to local community organizations and small farmers."

To do so, ACB will be "increasing contact between technical personnel and local members, leading to their greater participation in the organizational activities." ACB also will be "establishing a tractor rental enterprise for use by small farmers in three municipalities." (Project No. BR-666)

What specific type of "technical assistance" will ACB be providing the local community organizations it serves?

MRS. SZEKELY: The "technical assistance" referred to in the project description consists of both training in appropriate agricultural technologies and what ACB calls "community education." The former will be carried out in conjunction with a local agricultural technology training center called ESPLAR and involve community seminars, participatory research, and regional training events held at ESPLAR's own facility.

Appropriate technologies are those applicable in a dryland setting such as that of the Cariri region of Ceara state, where the 25 beneficiary communities are located. These technologies favor the use of environmentaly sound practices which lower production costs while increasing farmers' output. Examples of such technologies include using organic fertilizers, inter-cropping, biological control of pests, organic gardening, fish farming, beekeeping, water catchment and retention, and biogas generation. Training also addresses isses such as financial administration and cost control, home economics and the use of natural medicines.

"Community Education" refers to leadership training for the elected leaders of the various types of organizations present among the beneficiary population - primarily farmer's associations, community associations, and rural unions. It also refers to the series of 120 meetings that ACB will promote during the course of the project at the community, municipal, and regional level.

These meetings will be held in order to assist local organizations in the identification, analysis and resolution of the problems they face (land tenure, access to credit, availability of agricultural inputs, access to adequate health services, etc.). The yearly work plan for ACB, in turn, is determined by the needs identified in these meetings.

SENATOR INOUYE: How much money will be spent on the "consultants" referred to in your proposal and what will these "consultants" be used for?

MRS. SZEKELY: A total of $15,340 will be spent over two-years for consultants to train ACB staff as well as provide direct services to the 25 community groups in the area of agricultural appropriate technologies. This fee also includes the costs of overland travel and living expenses while working in the communities. An additional $2,560 will be spent to contract a lawyer who will help the groups attain legal status, as well as advise them on legal matters pertaining to land tenure and marketing.

SENATOR INOUYE: How will ACB use the income it will derive from its proposed tractor rental enterprise?

MRS. SZEKELY: ACB anticipates that the tractor rental enterprise will become self-sustaining while generating sufficient income to contribute to a regional sanitation program and cover a major portion of ACB's recurring costs.

It is, therefore, a strategy which seeks to provide a needed service to local farmers at an affordable price, while contributing to ACB's long term self-sufficiency, thereby lessening dependency on external funds. "Profits" (after deducting fuel and maintenance costs plus the driver's salary) from the rental of the tractor will be utilized as follows:

20% - replacement fund for tractor

15% - replacement fund for ACB car

15% - regional sanitation campaign (building latrines)

50% - creation of a fund to cover ACB's recurring costs after Foundation funding has ceased

ACB is currently operating a rice hulling facility in the same manner which has proved capable of offering a low-cost service to members, paying for its own maintenance as well as the salary of an operator, while generating additional income for a latrine-building campaign and reducing ACB's overhead costs.

SENATOR INOUYE: How will the rates for ACB's tractor rental enterprise be set so that local farmers will derive the greatest benefit at the least possible cost?

MRS. SZEKELY: ACB members, those who attend meetings and participate in activities, will pay 15% below the rental price currently being charged by the large landowners in the area who possess tractors. All others (non-members) will pay the price currently being charged in the region. ACB expects that they can service 450 individuals (the majority of whom are members) and still maintain a profit based on the size of the anticipated demand for ploughing and harrowing but also for terracing, contouring, draining ditches, etc. At harvest time the tractor will be used for winnowing.

Given that the average farm size of ACB members is 1.8 acres, each farmer will pay ACB, US$ 13.65 to have his field plowed as opposed to the US$ 16.24 he would have to pay large landowners in the region; a savings of $2.59 per farmer. As a result of this service, ACB calculates that farmers will increase their rice production from 45 bags/ha. (1,227 kilos/acre) to 60 bags/ha. (1,636 kilos/acre).

In monetary terms each farmer will earn US$ 52 more per harvest as a result of the project. To put these figures in perspective, the average monthly income for ACB members, although difficult to measure with precision, is less than $50 per month.

SENATOR INOUYE: Please provide the Subcommittee with a more thorough report on how this project will be run.

MRS. SZEKELY: ACB will hire an administrator and assistant administrator to carry out all functions related to the project.

During the first trimester ACB will establish the office, contract personnel, purchase the tractor and vehicle, develop their internal administration plan, create a format for preparing the financial information on the tractor service, carry out 3 community meetings, one alternative technology seminar, 15 meetings with the municipal government, coordinate 3 meetings with the board of directors, and additional meetings with coordinating agencies.

During the second trimester ACB will hold 16 meeting with base groups, prepare reports on the results of the previous trimester. ACB will sponsor 2 Alternative Technology seminars, 1 meeting of womens groups, 3 community meetings, meetings with coordinating agencies, 15 meetings with the municipal government, 3 meetings with the board of directors, and 2 meetings with the board and municipal government.

During the third trimester ACB will prepare reports on the previous trimester, carry out the first internal evaluation of the tractor rental enterprise, evaluate the use of the car, select topics for seminars, sponsor 15 meetings between the base groups, 1 Alternative Technology seminar, 3 community meetings, meetings with coordinating agencies, 15 meetings with the municipal government, 3 meetings with the board of directors, and 2 meetings with the board and municipal government. ACB will sponsor a regional meeting on Alternative Technologies.

During the fourth trimester ACB will prepare an evaluative/narrative report for the Inter-American Foundation in addition to a financial report. ACB will hold 16 meetings between base groups, 2 Alternative Technology seminars, 3 community meetings, meetings with coordinating agencies, 15 meetings with the municipal government, 3 meetings with the board of directors, and 2 meetings with the board and municipal government. ACB will convene the General Assembly and carry out 1 additional seminar.

In the fifth trimester ACB--in coordination with ESPLAR--will analize alternative technologies in irrigation and related problems as they apply to the concerns of the small farmer. ACB will explore the possibility of transfering community project experiences to other communities. ACB will hold 16 meetings between base groups, 2 Alternative Technology seminars, 3 community meetings, meetings with coordinating agencies, 15 meetings with the municipal government, 3 meetings with the board of directors, and 2 meetings with the board and municipal government.

In the sixth trimester ACB will begin to carry out a comprehensive evaluation of the program to determine possibilities for self-sufficiency. ACB will hold 16 meetings between base groups, 2 Alternative Technology seminars, 3 community meetings, meetings with coordinating agencies, 15 meetings with the municipal government, 3 meetings with the board of directors, and 2 meetings with the board and municipal government.

During the seventh and eighth trimesters ACB will continue to evaluate and improve the program. It will continue to carry out the numerous local and regional meetings and seminars between the ACB membership and other institutions and prepare final narrative and financial reports for the Inter-American Foundation.

## QUESTION SUBMITTED BY SENATOR HATFIELD

### THE IMPORTANCE OF THE OFFICE OF LEARNING AND DISSEMINATION

SENATOR HATFIELD: In your statement you stress the importance of the Office of Learning and Dissemination to the Foundation. Could you tell us in more detail why you think this office is so important?

MRS. SZEKELY: During the past 17 years, Inter-American Foundation has assisted tens of thousands of poor people. Yet, the underlying importance of the Foundation's work extends far beyond the grassroots groups it has supported and helped to grow in stature and effectiveness. The Foundation's Congressional mandate is clear -- it is to be not only a funding agency but also a learning laboratory for grassroots development. And what it learns is to be shared with concerned institutions and people in this Hemisphere.

The Office of Learning and Dissemination was created to make sure that the Foundation learns in systematic and useful ways from the projects we support so that the Foundation can continue to be an innovator in the field of grassroots development. Thus, this office is essential to carrying out the Foundation's Congressional mandate by demonstrating, documenting, and disseminating timely information about many of the important grassroots issues with which the international development community must grapple.

The Office of Learning and Dissemination carries out this task through publications, video programs and networking activities, and by providing fellowships for advanced studies to U.S., Latin American, and Caribbean scholars and development practitioners. During the past year, specific accomplishments include:

- Commissioning evaluations, special studies, and comparative research, one result being the publication of 3 books on development (with English, Spanish and Portuguese translations).

- Coordinating the Foundation's learning agenda with in-country support teams and applied research centers throughout the region.

- Facilitating networking, clustering of projects and comparative studies so that grantees can learn from one another.

- Organizing conferences and informational exchanges among grantee organizations.

- Serving as a development information and referral center for approximately 1200 international visitors working in grassroots development.

- Publishing GRASSROOTS DEVELOPMENT, the Foundation's quarterly Journal, in three languages for over 14,000 readers on six continents.

- Producing and distributing two videos on development projects -- "Women's Construction Collective of Jamaica" and "A Cooperative Without Borders (Mexico)" for network and school showings. A third video on "Alpacas - Gifts of the Gods (Peru)" will be completed this summer.

- Selecting more than 50 Latin Americans, Caribbeans, and North Americans for fellowships to carry out research that has a direct impact on development problems.

For further background on the Foundation's learning and dissemination activities, included for the record is an article which will appear later this month in the Foundation's 1987 Annual Report, and a summary of the Fellowship Program.

## SUBCOMMITTEE RECESS

Senator INOUYE. The subcommittee will now stand in recess until 10 a.m., May 26. And at that time we will receive testimony from the Deputy Secretary of State, Mr. John Whitehead, who will be accompanied by the Under Secretary of State for Security Assistance, and the Director of the Defense Security Assistance Agency.

These witnesses will address matters relating to the United States military assistance program, foreign military sales, international military education and training and peacekeeping operations. Thank you very much.

[Whereupon, at 11:37 a.m., Tuesday, May 17, the subcommittee was recessed, to reconvene at 10 a.m., May 26, 1988.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

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THURSDAY, MAY 26, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:05 a.m., in room S–128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Harkin, Mikulski, and D'Amato.

## DEPARTMENT OF STATE

**STATEMENTS OF:**

**HON. JOHN C. WHITEHEAD, DEPUTY SECRETARY OF STATE**

**HON. EDWARD J. DERWINSKI, UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY**

## DEFENSE AGENCIES

### DEFENSE SECURITY ASSISTANCE AGENCY

**STATEMENT OF LT. GEN. CHARLES W. BROWN, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY**

### OPENING STATEMENT OF HON. DANIEL K. INOUYE

### SECURITY ASSISTANCE PROGRAMS

Senator INOUYE. This morning we continue our examination of the President's request for fiscal year 1989 funding of foreign assistance programs, and today our attention will turn to the programs and funding levels for security assistance.

It is the responsibility of this subcommittee to oversee the management of these programs and to examine the impact of security assistance on American foreign policy.

### INTRODUCTION OF WITNESSES

With us this morning is the Honorable John C. Whitehead, Deputy Secretary of State; the Honorable Edward J. Derwinski, Under Secretary for State for Security Affairs; and Lt. Gen. Charles W. Brown, Director of the Defense Security Assistance Agency. On behalf of the subcommittee, I thank all of you for being with us this day.

We have received all of your statements and they will be made a part of the record.

If I may call upon you, Mr. Secretary.

### OPENING STATEMENT OF MR. WHITEHEAD

Mr. WHITEHEAD. Thank you very much. It's a pleasure for me to appear before you today to discuss the administration's fiscal 1989 security assistance request. As you know, I have been directed by the Secretary to be the Department's coordinator for programs within the framework of function 150, the international affairs component of the budget. I consult regularly with the other 150 departments and agencies who are involved with the function 150 budget, including Defense, Treasury, Agriculture, Peace Corps, USIA, the Board for International Broadcasting, and Eximbank. Accordingly, I deal extensively with the security assistance programs as they relate to the 150 budget as a whole.

Therefore, my testimony today will focus both on how foreign operations fits within the overall international affairs budget, and also on how security assistance fits within the foreign operations aggregate. Ed Derwinski, Under Secretary of State for Security Assistance, Science and Technology, who is here with me today, is responsible for the security assistance segment of the Department's budget, and he and General Brown of the Department of Defense, will provide a more detailed treatment of the security assistance accounts.

Secretary Shultz will also be appearing before this subcommittee next month, and he will describe in some detail the foreign policy framework that our resource request is designed to support. He will be prepared to bring you fully up to date on the major foreign policy issues confronting us including results of the Moscow summit, events in the Middle East, and the progress of Soviet withdrawal from Afghanistan. I will not attempt to cover this broad topic before he has a chance to do so himself, but I would like to summarize briefly what I like to describe as our winning hand, and then make the case for why we believe that a winning hand still needs adequate resources with which to back it up.

### U.S. SUCCESSES IN FOREIGN POLICY

Our country has achieved a lengthy record of foreign policy successes in the past several years. In the last year alone, we have concluded a historic treaty with the Soviet Union to eliminate an entire class of nuclear weapons, and negotiations for a 50-percent reduction of all intercontinental ballistic weapons are at an advanced stage.

We continue to challenge Moscow and the Eastern Bloc on the fundamental issues of human rights and freedom of peoples, and have seen considerable progress on these issues.

We have supported the Afghan freedom fighters for 8 long years and are now finally witnessing the long-sought Soviet Army departure from that embattled land.

We are firmly engaged in the search for peace in the Middle East and the Secretary is committed to continue his efforts to keep alive the hope for more progress towards a resolution of the problems in this region.

We have taken major strides toward stabilizing the political and economic situation in Central America. The bipartisan financial support for the four democracies—El Salvador, Honduras, Guatemala and Costa Rica—has been significant in this regard, and we continue to press Nicaragua and Panama to turn towards democracy.

We undertook a successful program to protect neutral shipping in the Persian Gulf.

We are at the forefront of the international effort to end the Iran-Iraq war.

We have seen remarkable shifts to democratic forms of government in two key east Asian strategic allies: the Philippines and South Korea.

Many of these successes have come about because we were able to provide adequate levels of financial resources to back up our policy. Others can only be sustained by renewing our commitment to match policy resources.

### BUDGET REQUEST

The administration's request for function 150 resources in fiscal year 1989 is in line with the conclusions reached last November in the budget summit agreement between the White House and congressional leaders. With respect to last year's budget summit process, Mr. Chairman, I want to take this opportunity to express our very sincere thanks to you and to the subcommittee's ranking member, Senator Kasten, for your strong support of function 150. As a direct result of your good efforts, our international affairs budget came out of the summit much better off than otherwise would have been the case not necessarily where we hoped to be in terms of necessary resource levels, but certainly much better off than would have been the case had there been no summit agreement at all.

### INCREASE IN FUNCTION 150 DISCRETIONARY FUNDING

Therefore, in accordance with the summit agreement, we seek a 2 percent increase in function 150 discretionary funding for fiscal year 1989 over the levels in the fiscal year 1988 continuing resolution. This $18.1 billion total reflects the first increase for the international affairs budget since fiscal year 1985. In analyzing this figure, it is useful to divide it into two subcategories. The first totaling $14.4 billion is the sum of all our foreign assistance programs. With the exception of Public Law 480 food aid, which is appropriated by the Agriculture Subcommittee, these programs are entirely under the appropriations jurisdiction of this subcommittee. The balance of the $18.1 billion or $3.8 billion represents the institutional backbone of our foreign policy, the operating budgets of the State Department, of USIA and of the other foreign affairs agencies which fall under the jurisdiction of the Commerce, Justice, State Subcommittee.

In putting together our fiscal year 1989 request, we were guided in the aggregate by the totals of the budget summit agreement. In the mix of programs within these totals, we tried as closely as possible to adhere to the spirit of the summit itself. That is, we sought to minimize the number of issues which have traditionally divided the Congress and the administration in determining the mix of programs.

### BUDGET SCORING

We have also worked closely with the Congressional Budget Office to minimize differences over the all-important scoring of the budget. As a result, with only two exceptions—that is, Exim Bank outlays and the needs of the guarantee reserve fund, a mandatory program outside of the parameters of the budget summit agreement—we are in accord with CBO's reestimate of the President's request.

### MAJOR POINTS OF BUDGET REQUEST

Under Secretary Derwinski and General Brown will discuss each of our security assistance programs and the objectives that they are designed to meet in some detail. There are, however, two major points that I would like to highlight as an introduction to their remarks.

First, it is important to note that our FMS and MAP request represents a modest increase of 3.7 percent over the enacted fiscal year 1988 CR level. While higher than the overall 2 percent increase for the function as a whole, it is still almost $100 million below the fiscal year 1987 level and over $800 million below the levels which were appropriated in fiscal year 1985 and 1986.

Mr. Chairman, I believe, and I hope that you would agree, that our military assistance programs are a critical element in our overall efforts to pursue U.S. national security and foreign policy interests. While our fiscal year 1989 request does not come close to restoring the cuts in military assistance over the past three years, we are seeking a slightly higher rate of increase next year for those accounts than would be available under a simple application of the budget summit's 2 percent formula. We believe such an increase is necessary to restore an appropriate amount of funds for key programs in Portugal, South America, the Caribbean and Africa, programs which were either zeroed out or scaled back drastically in fiscal year 1988.

### ALL-GRANT INITIATIVE FOR MILITARY ASSISTANCE PROGRAMS

In addition to the modest 3.7 percent increase in appropriations for military assistance programs, we are also proposing for the first time that such programs be carried out on an all-grant basis. This proposal is a critical element in our ability to live within the limits imposed by the budget summit agreement and still meet our military assistance requirements around the world. An all grant program will not provide more quantity for military purchases, but it will provide better quality assistance for military programs, assistance that will not add to the serious debt servicing burdens being faced by many of our security partners.

Mr. Chairman, we view this all-grant initiative as a logical extension of recent congressional action on military financing activities, action in which this subcommittee has taken the leadership role. In fiscal year 1985 the administration proposed and the Congress approved bringing the FMS program on budget, thus allowing us to provide FMS financing to selected countries at concessional rates of interest. As the budget squeeze became tighter and tighter, FMS appropriations were reduced, but the administration has been given greater flexibility in choosing the terms under which the financing can be offered.

In the fiscal year 1987 bill, for example, this subcommittee initiated action that would have allowed the administration to provide all military financing on a grant basis as forgiven FMS loans and would have also allowed for the selective conversion of previously appropriated, but undrawn, FMS loans into grants. Although this proposal survived in the Senate, it unfortunately did not make it through the conference on that year's continuing resolution. However, the fiscal year 1987 CR did allow the administration to provide the FMS loans to Israel and Egypt on a forgiven basis and all other FMS loans at concessional rates of interest.

Last year's CR again saw the level of military assistance appropriations reduced. Once again, however, the administration was given maximum flexibility to offer FMS loans at concessional rates of interest and for the first time two additional countries, Turkey and Pakistan, were added to the list of those who could receive forgiven FMS loans. Once again, it was the Senate that went into conference recommending an all-grant military assistance program. These were very important improvements to the military assistance program and went a long way to easing the difficulties that accompanied the reduction in funding levels for many countries.

Mr. Chairman, you and Senator Kasten, along with your staff members, Mr. Collins and Mr. Bond, and the other members of this subcommittee have been leaders in the effort to come up with new and creative ways to cope with the shrinking military assistance budget. Your efforts have been greatly appreciated by the administration.

## INCREASE IN MILITARY AID LEVELS

We are now seeking a small but much needed increase in military aid levels for fiscal year 1989. Picking up on your fiscal year 1987 and 1988 initiatives, we have proposed for fiscal year 1989 that all military assistance be provided on a grant basis. I sincerely hope that you will be supportive of both the level and the terms of our request.

## EARMARKING

Before concluding my remarks, I must say a few words about earmarks. As you undoubtedly know, I have been critical of the high degree of earmarking of the security assistance accounts contained in the fiscal year 1988 CR. While the budget summit agreement provided us with more foreign assistance funds than we otherwise would have received and while the CR provided more forgiven FMS and the flexibility to set concessional rates of interest on the nonforgiven FMS, the CR also took away needed flexibility by heavy earmarking especially in ESF where over 90 percent of the total funds provided were earmarked for particular countries.

The individual earmarks themselves were not significantly out of line with what the administration had proposed in its request. However, these earmarks, in conjunction with appropriations well below the administration's request, created a rigid and potentially dangerous situation. In fiscal year 1988, we were faced with a choice, whether to terminate ESF and military assistance programs in several important countries, or use special Presidential authorities to break the earmarks. Neither prospect was appealing. After long consideration, we chose not to break the earmarks. We are doing our best to manage the bilateral difficulties that were created by the steep reductions or outright eliminations of assistance to several important aid partners.

Our fiscal year 1989 request is a modest one. If it is appropriated, we will be able to continue playing the winning hand I described at the beginning of my testimony. If we face yet another year of reduced levels and heavy earmarking, however, the damage may be irreparable, basing and access agreements could be lost and crucial international support on a variety of foreign policy, national security and economic issues will be further eroded. We cannot expect others to be dependable friends if we cannot be one ourselves.

Finally, another year of heavy earmarking will seriously reduce our ability to respond to emerging needs, especially under the terms of the budget summit agreement which does not allow for supplementals without offsets elsewhere in function 150. The world is a constantly changing place and we must have the flexibility to adjust our resources to support our interests as new challenges and opportunities arise, whether they be in the Middle East, in South Asia, in Central America or in Africa.

Mr. Chairman, that concludes my prepared remarks. I would like now to turn to Under Secretary Derwinski's and General Brown's testimony, after which we will all be available for questions. Thank you.

[The statement of John Whitehead follows:]

# STATEMENT BY

# THE HONORABLE JOHN C. WHITEHEAD

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, IT IS A PLEASURE FOR ME TO APPEAR BEFORE YOU TODAY TO DISCUSS THE ADMINISTRATION'S FY 1989 SECURITY ASSISTANCE REQUEST. AS YOU KNOW, I HAVE BEEN DIRECTED BY THE SECRETARY TO BE THE DEPARTMENT'S COORDINATOR FOR PROGRAMS WITHIN THE FRAMEWORK OF FUNCTION 150, THE INTERNATIONAL AFFAIRS COMPONENT OF THE BUDGET. I CONSULT REGULARLY WITH THE OTHER 150 DEPARTMENTS AND AGENCIES WHO ARE INVOLVED WITH THE FUNCTION 150 BUDGET, INCLUDING DEFENSE, TREASURY, AGRICULTURE, PEACE CORPS, USIA, THE BOARD FOR INTERNATIONAL BROADCASTING AND EXIM BANK. ACCORDINGLY, I DEAL EXTENSIVELY WITH THE SECURITY ASSISTANCE PROGRAMS AS THEY RELATE TO THE 150 BUDGET AS A WHOLE.

THEREFORE, MY TESTIMONY TODAY WILL FOCUS BOTH ON HOW FOREIGN OPERATIONS FITS WITHIN THE OVERALL INTERNATIONAL AFFAIRS BUDGET, AND ALSO ON HOW SECURITY ASSISTANCE FITS WITHIN THE FOREIGN OPERATIONS AGGREGATE. ED DERWINSKI, UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY, WHO IS HERE WITH ME TODAY, IS RESPONSIBLE FOR THE SECURITY ASSISTANCE SEGMENT OF THE DEPARTMENT'S BUDGET AND HE AND GENERAL BROWN OF THE DEPARTMENT OF DEFENSE WILL PROVIDE A MORE DETAILED TREATMENT OF THE SECURITY ASSISTANCE ACCOUNTS.

SECRETARY SHULTZ WILL ALSO BE APPEARING BEFORE THIS SUBCOMMITTEE NEXT MONTH AND HE WILL DESCRIBE IN SOME DETAIL THE FOREIGN POLICY FRAMEWORK THAT OUR RESOURCE REQUEST IS DESIGNED

TO SUPPORT. HE WILL BE PREPARED TO BRING YOU FULLY UP TO DATE ON THE MAJOR FOREIGN POLICY ISSUES CONFRONTING US, INCLUDING RESULTS OF THE MOSCOW SUMMIT, EVENTS IN THE MIDDLE EAST AND THE PROGRESS OF SOVIET WITHDRAWAL FROM AFGHANISTAN. I WILL NOT ATTEMPT TO COVER THIS BROAD TOPIC BEFORE HE HAS A CHANCE TO DO SO HIMSELF. BUT I WOULD LIKE TO SUMMARIZE BRIEFLY WHAT I LIKE TO DESCRIBE AS OUR "WINNING HAND" AND THEN MAKE THE CASE FOR WHY WE BELIEVE THAT A WINNING HAND STILL NEEDS ADEQUATE RESOURCES WITH WHICH TO BACK IT UP.

## A SUCCESSFUL FOREIGN POLICY

OUR COUNTRY HAS ACHIEVED A LENGTHY RECORD OF FOREIGN POLICY SUCCESSES IN THE PAST SEVERAL YEARS. IN THE LAST YEAR ALONE:

--WE HAVE CONCLUDED AN HISTORIC TREATY WITH THE SOVIET UNION TO ELIMINATE AN ENTIRE CLASS OF NUCLEAR WEAPONS AND NEGOTIATIONS FOR A 50 PERCENT REDUCTION OF ALL INTERCONTINENTAL BALLISTIC WEAPONS ARE AT AN ADVANCED STAGE.

--WE CONTINUE TO CHALLENGE MOSCOW AND THE EASTERN BLOC ON THE FUNDAMENTAL ISSUES OF HUMAN RIGHTS AND FREEDOM OF PEOPLES AND HAVE SEEN CONSIDERABLE PROGRESS ON THESE ISSUES.

--WE HAVE SUPPORTED THE AFGHAN FREEDOM FIGHTERS FOR EIGHT LONG YEARS AND ARE NOW FINALLY WITNESSING THE LONG SOUGHT SOVIET ARMY DEPARTURE FROM THAT EMBATTLED LAND.

--WE ARE FIRMLY ENGAGED IN THE SEARCH FOR PEACE IN THE MIDDLE EAST AND THE SECRETARY IS COMMITTED TO CONTINUE HIS EFFORTS TO KEEP ALIVE THE HOPE FOR MORE PROGRESS TOWARDS A RESOLUTION OF THE PROBLEMS IN THIS REGION.

--WE HAVE TAKEN MAJOR STRIDES TOWARD STABILIZING THE POLITICAL AND ECONOMIC SITUATION IN CENTRAL AMERICA. THE BIPARTISAN FINANCIAL SUPPORT FOR THE FOUR DEMOCRACIES -- EL

SALVADOR, HONDURAS, GUATEMALA AND COSTA RICA -- HAS BEEN SIGNIFICANT IN THIS REGARD AND WE CONTINUE TO PRESS NICARAGUA AND PANAMA TO TURN TOWARDS DEMOCRACY.

--WE UNDERTOOK A SUCCESSFUL PROGRAM TO PROTECT NEUTRAL SHIPPING IN THE PERSIAN GULF.

--WE ARE AT THE FOREFRONT OF THE INTERNATIONAL EFFORT TO END THE IRAN-IRAQ WAR.

--WE HAVE SEEN REMARKABLE SHIFTS TO DEMOCRATIC FORMS OF GOVERNMENT IN TWO KEY EAST ASIAN STRATEGIC ALLIES -- THE PHILIPPINES AND SOUTH KOREA.

MANY OF THESE SUCCESSES HAVE COME ABOUT BECAUSE WE WERE ABLE TO PROVIDE ADEQUATE LEVELS OF FINANCIAL RESOURCES TO BACK UP OUR POLICY. OTHERS CAN ONLY BE SUSTAINED BY RENEWING OUR COMMITMENT TO MATCH POLICY WITH RESOURCES.

## FY 1989 AND THE BUDGET SUMMIT

THE ADMINISTRATION'S REQUEST FOR FUNCTION 150 RESOURCES IN FY 1989 IS IN LINE WITH THE CONCLUSIONS REACHED LAST NOVEMBER IN THE BUDGET SUMMIT AGREEMENT BETWEEN THE WHITE HOUSE AND CONGRESSIONAL LEADERS. WITH RESPECT TO LAST YEAR'S BUDGET SUMMIT PROCESS, MR. CHAIRMAN, I WANT TO TAKE THIS OPPORTUNITY TO EXPRESS OUR VERY SINCERE THANKS TO YOU AND TO THE SUBCOMMITTEE'S RANKING MEMBER SENATOR KASTEN FOR YOUR STRONG SUPPORT OF FUNCTION 150. AS A DIRECT RESULT OF YOUR GOOD EFFORTS, OUR INTERNATIONAL AFFAIRS BUDGET CAME OUT OF THE SUMMIT MUCH BETTER OFF THAN OTHERWISE WOULD HAVE BEEN THE CASE -- NOT NECESSARILY WHERE WE HOPED TO BE IN TERMS OF NECESSARY RESOURCE LEVELS, BUT CERTAINLY MUCH BETTER OFF THAN WOULD HAVE BEEN THE CASE HAD THERE BEEN NO SUMMIT AGREEMENT AT ALL.

THEREFORE, IN ACCORDANCE WITH THE SUMMIT AGREEMENT, WE SEEK A 2 PERCENT INCREASE IN FUNCTION 150 DISCRETIONARY FUNDING FOR FY 1989 OVER THE LEVELS IN THE FY 1988 CONTINUING RESOLUTION. THIS $18.1 BILLION TOTAL REFLECTS THE FIRST INCREASE FOR THE INTERNATIONAL AFFAIRS BUDGET SINCE FY 1985. IN ANALYZING THIS FIGURE, IT IS USEFUL TO DIVIDE IT INTO TWO SUBCATEGORIES. THE FIRST, TOTALLING $14.4 BILLION, IS THE SUM OF ALL OUR FOREIGN ASSISTANCE PROGRAMS. WITH THE EXCEPTION OF PL 480 FOOD AID, WHICH IS APPROPRIATED BY THE AGRICULTURE SUBCOMMITTEE, THESE PROGRAMS ARE ENTIRELY UNDER THE APPROPRIATIONS JURISDICTION OF THIS SUBCOMMITTEE. THE BALANCE OF THE $18.1 BILLION (OR $3.8 BILLION) REPRESENTS THE INSTITUTIONAL BACKBONE OF OUR FOREIGN POLICY -- THE OPERATING BUDGETS OF THE STATE DEPARTMENT, USIA AND THE OTHER FOREIGN AFFAIRS AGENCIES, WHICH FALL UNDER THE JURISDICTION OF THE COMMERCE, JUSTICE, STATE SUBCOMMITTEE.

IN PUTTING TOGETHER OUR FY 1989 REQUEST, WE WERE GUIDED IN THE AGGREGATE BY THE TOTALS OF THE BUDGET SUMMIT AGREEMENT. IN THE MIX OF PROGRAMS WITHIN THESE TOTALS, WE TRIED AS CLOSELY AS POSSIBLE TO ADHERE TO THE SPIRIT OF THE SUMMIT ITSELF. THAT IS, WE SOUGHT TO MINIMIZE THE NUMBER OF ISSUES WHICH HAVE TRADITIONALLY DIVIDED THE CONGRESS AND THE ADMINISTRATION IN DETERMINING THE MIX OF PROGRAMS.

WE HAVE ALSO WORKED CLOSELY WITH THE CONGRESSIONAL BUDGET OFFICE TO MINIMIZE DIFFERENCES OVER THE ALL-IMPORTANT SCORING OF THE BUDGET. AS A RESULT, WITH ONLY TWO EXCEPTIONS -- EXIM BANK OUTLAYS AND THE NEEDS OF THE GUARANTEE RESERVE FUND (A MANDATORY PROGRAM OUTSIDE OF THE PARAMETERS OF THE BUDGET SUMMIT AGREEMENT), WE ARE IN ACCORD WITH CBO'S REESTIMATE OF THE PRESIDENT'S REQUEST.

## FY 1989 SECURITY ASSISTANCE REQUEST

UNDER SECRETARY DERWINSKI AND GENERAL BROWN WILL DISCUSS EACH OF OUR SECURITY ASSISTANCE PROGRAMS AND THE OBJECTIVES THAT THEY ARE DESIGNED TO MEET IN SOME DETAIL. THERE ARE, HOWEVER, TWO MAJOR POINTS THAT I WOULD LIKE TO HIGHLIGHT AS AN INTRODUCTION TO THEIR REMARKS.

FIRST, IT IS IMPORTANT TO NOTE THAT OUR FMS AND MAP REQUEST REPRESENTS A MODEST INCREASE OF 3.7 PERCENT OVER THE ENACTED FY 1988 CR LEVEL. WHILE HIGHER THAN THE OVERALL 2 PERCENT INCREASE FOR THE FUNCTION AS A WHOLE, IT IS STILL ALMOST $100 MILLION BELOW THE FY 1987 LEVEL AND OVER $800 MILLION BELOW THE LEVELS WHICH WERE APPROPRIATED IN FY 1985 AND 1986. MR. CHAIRMAN, I BELIEVE, AND I HOPE THAT YOU WOULD AGREE, THAT OUR MILITARY ASSISTANCE PROGRAMS ARE A CRITICAL ELEMENT IN OUR OVERALL EFFORTS TO PURSUE U.S. NATIONAL SECURITY AND FOREIGN POLICY INTERESTS. WHILE OUR FY 1989 REQUEST DOES NOT COME CLOSE TO RESTORING THE CUTS IN MILITARY ASSISTANCE OVER THE PAST THREE YEARS, WE ARE SEEKING A SLIGHTLY HIGHER RATE OF INCREASE NEXT YEAR FOR THOSE ACCOUNTS THAN WOULD BE AVAILABLE UNDER A SIMPLE APPLICATION OF THE BUDGET SUMMIT'S TWO PERCENT FORMULA. WE BELIEVE SUCH AN INCREASE IS NECESSARY TO RESTORE AN APPROPRIATE AMOUNT OF FUNDS FOR KEY PROGRAMS IN PORTUGAL, SOUTH AMERICA, THE CARIBBEAN AND AFRICA -- PROGRAMS WHICH WERE EITHER ZEROED OUT OR SCALED BACK DRASTICALLY IN FY 1988.

IN ADDITION TO THE MODEST 3.7 PERCENT INCREASE IN APPROPRIATIONS FOR MILITARY ASSISTANCE PROGRAMS, WE ARE ALSO PROPOSING FOR THE FIRST TIME THAT SUCH PROGRAMS BE CARRIED OUT ON AN ALL GRANT BASIS. THIS PROPOSAL IS A CRITICAL ELEMENT IN OUR ABILITY TO LIVE WITHIN THE LIMITS IMPOSED BY THE BUDGET

SUMMIT AGREEMENT AND STILL MEET OUR MILITARY ASSISTANCE REQUIREMENTS AROUND THE WORLD. AN ALL GRANT PROGRAM WILL NOT PROVIDE "MORE QUANITY" FOR MILITARY PURCHASES, BUT IT WILL PROVIDE "BETTER QUALITY" ASSISTANCE FOR MILITARY PROGRAMS, ASSISTANCE THAT WILL NOT ADD TO THE SERIOUS DEBT SERVICING BURDENS BEING FACED BY MANY OF OUR SECURITY PARTNERS.

MR. CHAIRMAN, WE VIEW THIS ALL-GRANT INITIATIVE AS A LOGICAL EXTENSION OF RECENT CONGRESSIONAL ACTION ON MILITARY FINANCING ACTIVITIES, ACTION IN WHICH THIS SUBCOMMITTEE HAS TAKEN THE LEADERSHIP ROLE. IN FY 1985 THE ADMINISTRATION PROPOSED AND THE CONGRESS APPROVED BRINGING THE FMS PROGRAM ON-BUDGET, THUS ALLOWING US TO PROVIDE FMS FINANCING TO SELECTED COUNTRIES AT CONCESSIONAL RATES OF INTEREST. AS THE BUDGET SQUEEZE BECAME TIGHTER AND TIGHTER, FMS APPROPRIATIONS WERE REDUCED, BUT THE ADMINISTRATION HAS BEEN GIVEN GREATER FLEXIBILITY IN CHOOSING THE TERMS UNDER WHICH THE FINANCING CAN BE OFFERED.

IN THE FY 1987 BILL, FOR EXAMPLE, THIS SUBCOMMITTEE INITIATED ACTION THAT WOULD HAVE ALLOWED THE ADMINISTRATION TO PROVIDE ALL MILITARY FINANCING ON A GRANT BASIS (AS FORGIVEN FMS LOANS) AND WOULD HAVE ALSO ALLOWED FOR THE SELECTIVE CONVERSION OF PREVIOUSLY APPROPRIATED, BUT UNDRAWN, FMS LOANS INTO GRANTS. ALTHOUGH THIS PROPOSAL SURVIVED IN THE SENATE, IT UNFORTUNATELY DID NOT MAKE IT THROUGH THE CONFERENCE ON THAT YEAR'S CONTINUING RESOLUTION. HOWEVER, THE FY 1987 CR DID ALLOW THE ADMINISTRATION TO PROVIDE THE FMS LOANS TO ISRAEL AND EGYPT ON A FORGIVEN BASIS AND ALL OTHER FMS LOANS AT CONCESSIONAL RATES OF INTEREST.

LAST YEAR'S CR AGAIN SAW THE LEVEL OF MILITARY ASSISTANCE APPROPRIATIONS REDUCED. ONCE AGAIN, HOWEVER, THE ADMINISTRATION WAS GIVEN MAXIMUM FLEXIBILITY TO OFFER FMS LOANS AT CONCESSIONAL RATES OF INTEREST AND, FOR THE FIRST TIME, TWO ADDITIONAL COUNTRIES -- TURKEY AND PAKISTAN -- WERE ADDED TO THE LIST OF THOSE WHO COULD RECEIVE FORGIVEN FMS LOANS. ONCE AGAIN, IT WAS THE SENATE THAT WENT INTO CONFERENCE RECOMMENDING AN ALL-GRANT MILITARY ASSISTANCE PROGRAM. THESE WERE VERY IMPORTANT IMPROVEMENTS TO THE MILITARY ASSISTANCE PROGRAM AND WENT A LONG WAY TO EASING THE DIFFICULTIES THAT ACCOMPANIED THE REDUCTION IN FUNDING LEVELS FOR MANY COUNTRIES.

MR. CHAIRMAN, YOU AND SENATOR KASTEN, ALONG WITH YOUR STAFF MEMBERS MR. COLLINS AND MR. BOND, AND THE OTHER MEMBERS OF THIS SUBCOMMITTEE HAVE BEEN LEADERS IN THE EFFORT TO COME UP WITH NEW AND CREATIVE WAYS TO COPE WITH A SHRINKING MILITARY ASSISTANCE BUDGET. YOUR EFFORTS HAVE BEEN GREATLY APPRECIATED BY THE ADMINISTRATION.

WE ARE NOW SEEKING A SMALL BUT MUCH NEEDED INCREASE IN MILITARY AID LEVELS FOR FY 1989. PICKING UP ON YOUR FY 1987 AND 1988 INITIATIVES, WE HAVE PROPOSED FOR FY 1989 THAT ALL MILITARY ASSISTANCE BE PROVIDED ON A GRANT BASIS. I SINCERELY HOPE THAT YOU WILL BE SUPPORTIVE OF BOTH THE LEVEL AND THE TERMS OF OUR REQUEST.

BEFORE CONCLUDING MY REMARKS, I MUST SAY A FEW WORDS ABOUT EARMARKS. AS YOU UNDOUBTEDLY KNOW, I HAVE BEEN CRITICAL OF THE HIGH DEGREE OF EARMARKING OF THE SECURITY ASSISTANCE ACCOUNTS CONTAINED IN THE FY 1988 CR. WHILE THE BUDGET SUMMIT AGREEMENT PROVIDED US WITH MORE FOREIGN ASSISTANCE FUNDS THAN WE OTHERWISE WOULD HAVE RECEIVED AND WHILE THE CR PROVIDED MORE

FORGIVEN FMS AND THE FLEXIBILITY TO SET CONCESSIONAL RATES OF INTEREST ON THE NON-FORGIVEN FMS, THE CR ALSO TOOK AWAY NEEDED FLEXIBILITY BY HEAVY EARMARKING, ESPECIALLY IN ESF WHERE OVER 90 PERCENT OF THE TOTAL FUNDS PROVIDED WERE EARMARKED FOR PARTICULAR COUNTRIES.

THE INDIVIDUAL EARMARKS THEMSELVES WERE NOT SIGNIFICANTLY OUT OF LINE WITH WHAT THE ADMINISTRATION HAD PROPOSED IN ITS REQUEST. HOWEVER, THESE EARMARKS, IN CONJUNCTION WITH APPROPRIATIONS WELL BELOW THE ADMINISTRATION'S REQUEST, CREATED A RIGID AND POTENTIALLY DANGEROUS SITUATION. IN FY 1988 WE WERE FACED WITH A CHOICE -- WHETHER TO TERMINATE ESF AND MILITARY ASSISTANCE PROGRAMS IN SEVERAL IMPORTANT COUNTRIES OR USE SPECIAL PRESIDENTIAL AUTHORITIES TO BREAK THE EARMARKS. NEITHER PROSPECT WAS APPEALING. AFTER LONG CONSIDERATION, WE CHOSE NOT TO BREAK THE EARMARKS. WE ARE DOING OUR BEST TO MANAGE THE BILATERAL DIFFICULTIES THAT WERE CREATED BY THE STEEP REDUCTIONS OR OUTRIGHT ELIMINATIONS OF ASSISTANCE TO SEVERAL IMPORTANT AID PARTNERS.

OUR FY 1989 REQUEST IS A MODEST ONE. IF IT IS APPROPRIATED, WE WILL BE ABLE TO CONTINUE PLAYING THE "WINNING HAND" I DESCRIBED AT THE BEGINNING OF MY TESTIMONY. IF WE FACE YET ANOTHER YEAR OF REDUCED LEVELS AND HEAVY EARMARKING, HOWEVER, THE DAMAGE MAY BE IRREPARABLE -- BASING AND ACCESS AGREEMENTS COULD BE LOST AND CRUCIAL INTERNATIONAL SUPPORT ON A VARIETY OF FOREIGN POLICY, NATIONAL SECURITY AND ECONOMIC ISSUES WILL BE FURTHER ERODED. WE CANNOT EXPECT OTHERS TO BE DEPENDABLE FRIENDS IF WE CANNOT BE ONE OURSELVES.

FINALLY, ANOTHER YEAR OF HEAVY EARMARKING WILL SERIOUSLY

REDUCE OUR ABILITY TO RESPOND TO EMERGING NEEDS, ESPECIALLY UNDER THE TERMS OF THE BUDGET SUMMIT AGREEMENT, WHICH DOES NOT ALLOW FOR SUPPLEMENTALS WITHOUT OFFSETS ELSEWHERE IN FUNCTION 150. THE WORLD IS A CONSTANTLY CHANGING PLACE AND WE MUST HAVE THE FLEXIBILITY TO ADJUST OUR RESOURCES TO SUPPORT OUR INTERESTS AS NEW CHALLENGES AND OPPORTUNITIES ARISE, WHETHER THEY BE IN THE MIDDLE EAST, SOUTH ASIA, CENTRAL AMERICA OR AFRICA.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. I WOULD LIKE NOW TO TURN TO UNDER SECRETARY DERWINSKI'S AND GENERAL BROWN'S TESTIMONY, AFTER WHICH WE WILL ALL BE AVAILABLE FOR QUESTIONS.

## STATEMENT OF EDWARD J. DERWINSKI

Senator INOUYE. Mr. Derwinski?

Mr. DERWINSKI. You do have our full testimony. I would like to just touch on what I consider the highlights, and at the same time Mr. Whitehead's testimony, General Brown's and mine basically coincide. There aren't any differences of opinion obviously.

I would like to pick up the point that Secretary Whitehead stressed which is that we're working within the realities of the CR trying to be as flexible as possible, taking into account the agreements that were reached last December. And I should note that yesterday the House passed the bill that came out of the appropriations subcommittee relatively I would say mild debate and to my understanding, no major amendments which shows the acceptance of the reality in the budget factors that seem to be facing us at this time.

## U.S. MILITARY BASE NEGOTIATIONS

I would like to call your attention, however, to the fact that this year we are beginning negotiations. In fact, in the case of Greece, they're well on their way to negotiations on the military bases in Greece. And the negotiations with the Philippines will be picking up pace soon. In the meantime, the government of Portugal has requested consultation under provision of the 1983 agreement extending U.S. access to the military facilities and lodges in the Azores. So, here we have three major allies, Portugal, the Philippines and Greece, all being involved in base rights agreements and in each case questioning the level of our security assistance.

In the case of Portugal, keeping in mind that their economy is probably the most underdeveloped in NATO, they feel very strongly that we have not met the commitments made in our 1983 agreement. They may wish to address these shortfalls and that's the reason they instituted the new negotiations.

I certainly don't have to tell you the very delicate developments in the Philippines, the insurrections that they face. The revitalization of democracy there is included in newly elected Senate and House in which the members are quite vociferous and energetic in their foreign policy comments, especially as they relate to the U.S./Philippine bilateral relations. And that's a logical and necessary predictable factor we have to face in our relations with the Philippines.

### EARMARKING

Also, I note, as Secretary Whitehead did, the issue of earmarking. Of course, I approach this from a personal vantage point having spent many years on the House committee and participated in some earmarking efforts. Therefore, in principle, I have no objection to the earmarking efforts of Congress. Yet, I do believe the figures show at this time that Congress having earmarked approximately 94 percent, it leaves us with limited administrative flexibility. And my practical experience in the last 6 years at the State Department has convinced me that we do need some flexibility from the rigid application of that high an earmarking figure. And I think, again, the atmosphere shown in the House yesterday I think indicates that we are dealing with a much more pragmatic and less political debate on the subject this year, and I hope we can work out some practical adjustments in the earmarking area.

### COASTAL POLICING IN WESTERN AFRICA

I would like to mention one specific program only because it's such a very small. We tend to focus on the large issues, the base rights countries and the major costs. Last month I spent a week touring the west coast of Africa visiting countries there who are funded under our coastal security program which is part of our overall community civic action package for Africa. The classic case of how a little money goes a long way—and I visited such standard ports of call as Guinea Bissau, Guinea Senegal, Gambia and Mauritania. In each case primarily looking at the support we have their navies for very preliminary and, obviously I would have to say, spartan facilities which they could start to police their waters. Their fishing areas are especially valuable to them. They haven't had the facilities to properly patrol them and with a very small investment of funds.

For example, in Guinea Bissau, we provided them with $300,000 in 1986, $116,000 in 1987, $300,000 in fiscal year 1988. And you would think that we had given them the keys to Fort Knox, they were so pleased with that program. Their navy, a small one as it is, is now able to conduct basic patrol of duties in the rich fishing areas. They've hauled in a number of foreign ships fishing without a license and the same procedure follows in Mauritania, Senegal, the Gambia. They're establishing radio links communications between them to better coordinate their areas.

So, with a very small investment of funds—the total of all those countries is probably no more than $1 million—we are able to help them help themselves in a very practical fashion. I just mention that as sort of the part of the overall security assistance that is ever subject to debate and controversy yet, in effect, is a great success story, also in going a long way in helping us establish the good will with the countries in Africa who are slowly turning toward the west for support and assistance.

If I may close with one further note, Mr. Chairman, given the limited time frame which you're facing this year with the distractions of the convention and election year, we stand ready—General Brown, Secretary Whitehead and myself—to be of complete assistance to you in any context, followup information that we may not have provided. We would like to work with you as closely as possible. We're at your disposal, and that if through this effort we could solve some of the complications and frustrations of the budget process as well as the proper allocation of funds, why, we would appreciate your understanding and support, which we know we will have.

Thank you, sir.

[The statement of Edward J. Derwinski follows:]

## STATEMENT BY

## THE HONORABLE EDWARD J. DERWINSKI

I AM HONORED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE ADMINISTRATION'S PROPOSED SECURITY ASSISTANCE PROGRAM FOR FY 1989. QUITE OBVIOUSLY, COOPERATION BETWEEN THE CONGRESS AND THE ADMINISTRATION IS MORE NECESSARY THAN EVER IF THIS COUNTRY IS TO HAVE A COHERENT FOREIGN POLICY. BECAUSE WE TOOK DEEP CUTS IN FY 1988, I HOPE YOU WILL FUND FULLY THIS PROGRAM IN FY 1989 WITHIN THE OVERALL BUDGET COMPROMISE AGREED TO LAST DECEMBER.

AS YOU KNOW, THE SECURITY ASSISTANCE BUDGET HAS DECLINED STEADILY SINCE FY 1985. IN DOLLAR TERMS, THE BUDGET HAS GONE FROM $9.5 BILLION IN THAT YEAR TO $7.9 BILLION IN FY 1988, NOT DISCOUNTED FOR INFLATION. FURTHER COMPLICATING MANAGEMENT OF THIS PROGRAM HAS BEEN THE CONGRESSIONAL PROPENSITY TO EARMARK. THESE EARMARKS HAVE GROWN FROM JUST UNDER 50% OF THE TOTAL PROGRAM IN FY 1985 TO ALMOST 95% IN FY 1988. THE RESULT IS THAT THOSE LESS VISIBLE, LESS POPULAR, COUNTRY PROGRAMS WHICH CAN LEAST AFFORD THESE CUTS HAVE SUFFERED PROGRAM REDUCTIONS OUT OF ALL PROPORTION TO THE OVERALL REDUCTIONS.

THE SECURITY ASSISTANCE BUDGET THAT WE PRESENT TO YOU THIS YEAR IS TRULY A BARE BONES PROGRAM. UNFORESEEN EMERGENCIES COULD PUT UNTENABLE STRAINS ON THE RESOURCES IT PROVIDES. NONETHELESS, THESE ARE THE AGGREGATES THAT THE CONGRESS AND THE ADMINISTRATION AGREED WERE NECESSARY IF THE COUNTRY IS TO DEAL RESPONSIBLY WITH THE BUDGET DEFICIT.

NOW WE TRUST THAT WE CAN PRESERVE THESE AGGREGATES, AND

MAINTAIN A BARE MINIMUM OF PRESIDENTIAL FLEXIBILITY. THIS BUDGET PROPOSAL CARRIES WITH IT REAL RISKS, RISKS THAT NEITHER THE ADMINISTRATION NOR THE CONGRESS WOULD PROBABLY TAKE IN TIMES OF GREATER FISCAL RESOURCES. GOING BELOW THESE LEVELS WOULD, IN OUR JUDGMENT, INCREASE THESE RISKS BEYOND THE REALM OF PRUDENCE. LET ME PROVIDE YOU WITH SOME EXAMPLES.

THIS YEAR WE HAVE BEGUN NEGOTIATIONS ON OUR MILITARY BASES WITH GREECE AND THE PHILIPPINES. ADDITIONALLY, THE GOVERNMENT OF PORTUGAL HAS REQUESTED CONSULTATIONS UNDER A PROVISION IN THE 1983 AGREEMENT EXTENDING U.S. ACCESS TO MILITARY FACILITIES AT LAJES IN THE AZORES. IN TWO OF THOSE NEGOTIATIONS, PORTUGAL AND THE PHILIPPINES, A CENTRAL ISSUE IS THE LEVEL OF OUR SECURITY ASSISTANCE.

YOU ARE ALL AWARE OF HOW DISPLEASED THE PORTUGUESE GOVERNMENT IS WITH THE CUTS WE HAVE HAD TO MAKE IN SECURITY ASSISTANCE TO THAT COUNTRY OVER THE LAST THREE YEARS. PRIME MINISTER CAVACO SILVA RAISED THIS AS A KEY CONCERN DURING HIS FEBRUARY 23-25 VISIT TO WASHINGTON. AS YOU KNOW, WE PLEDGED OUR "BEST EFFORTS" IN CONNECTION WITH THE LAJES AGREEMENT TO ASSIST THE MODERNIZATION OF PORTUGUESE DEFENSE CAPABILITIES. WE STRIVED FOR A RISING LEVEL OF MILITARY ASSISTANCE, AND IN FACT WE REACHED A LEVEL OF $125 MILLION IN FY 1985. HOWEVER, THIS ASSISTANCE HAS FALLEN EVERY YEAR SINCE. WE WERE ABLE TO PROVIDE JUST OVER $85 MILLION (INCLUDING IMET) IN MILITARY AID IN FY 1988. JUST AS SERIOUSLY, ECONOMIC SUPPORT FUND (ESF) ASSISTANCE FELL $8 MILLION SHORT OF THE $40 MILLION THAT WE NORMALLY PROVIDE TO PORTUGAL IN SUPPORT OF DEVELOPMENT PROJECTS IN THE AZORES. SUCH SHORTFALLS CREATE POLITICAL PROBLEMS COMPLICATING OUR CONTINUED ACCESS TO LAJES. THEY ALSO UNDERCUT PORTUGAL'S ABILITY TO MEET ITS COMMITMENTS TO

NATO. OUR PROPOSED FY 1989 ALLOCATION FOR PORTUGAL IS BETTER THAN IN FY 1988. NEVERTHELESS, IT IN NO WAY ADDRESSES THE LARGE SHORTFALLS FROM PREVIOUS YEARS.

WE HAVE STARTED THE FIVE YEAR REVIEW OF THE U.S.-PHILIPPINES MILITARY BASES AGREEMENT WHICH PROVIDES FOR OUR ACCESS TO ESSENTIAL FACILITIES AT SUBIC BAY AND CLARK AIR BASE. AGAIN, A KEY ISSUE WILL BE BASES-RELATED COMPENSATION LEVELS. PROMINENT FILIPINOS, INCLUDING MANY LEGISLATORS, FEEL THAT THEIR COUNTRY IS INADEQUATELY COMPENSATED FOR THE FACILITIES IT PROVIDES THE UNITED STATES. SOME WHO SUPPORT THE BASE AGREEMENTS ARE INSISTING ON SIGNIFICANT INCREASES IN FINANCIAL ASSISTANCE. THEY BELIEVE THEY SUFFER IN COMPARISON WITH THE ASSISTANCE EUROPEAN COUNTRIES RECEIVE. AS A NEWLY RESTORED DEMOCRACY, AN ALLY, AND COUNTRY FACING A DANGEROUS COMMUNIST INSURGENCY, THE PHILIPPINES IS LOOKING FOR SIGNIFICANTLY HIGHER ASSISTANCE LEVELS FROM THE U.S., ITS PRINCIPAL SECURITY PARTNER. SENIOR FILIPINO OFFICIALS HAVE ALREADY RAISED THIS ISSUE DURING THE NEGOTIATIONS. THERE IS NO DEBATE ABOUT THE NEED THE PHILIPPINES HAS FOR ECONOMIC AND MILITARY ASSISTANCE.

THE U.S.-TURKISH PARTNERSHIP HAS BEEN STRENGTHENED RECENTLY BY TURKISH GOVERNMENT RATIFICATION OF THE EXTENSION OF OUR BASES AGREEMENT THROUGH 1990. IN THE SECURITY AREA, THE U.S.-TURKISH RELATIONSHIP INCLUDES A UNIQUE ARRAY OF AIR BASES, LOGISTICAL SITES, INTELLIGENCE-GATHERING FACILITIES AND PORTS. FULL FUNDING OF OUR FY 1989 MILITARY AND ECONOMIC AID REQUEST IS VITAL IF WE ARE TO KEEP FAITH WITH THIS LOYAL ALLY. WE ARE THE PRINCIPAL PROVIDER OF SECURITY ASSISTANCE TO TURKEY.

U.S. MILITARY AID FOR TURKEY THROUGH THE GRANT MILITARY ASSISTANCE PROGRAM (MAP) AND FOREIGN MILITARY SALES (FMS) HAS FALLEN FROM $715 MILLION IN 1984 TO $490 MILLION IN THE LAST TWO FISCAL YEARS. WE HAVE BEEN ABLE TO MAKE UP MUCH OF THE SHORTFALL IN WHAT NEEDS TO BE DONE TO MEET OUR ASSISTANCE OBJECTIVES THROUGH SUCH INSTRUMENTS AS THE SOUTHERN REGION AMENDMENT. NOTWITHSTANDING THESE INITIATIVES, THIS YEAR, IN THE WAKE OF THE DECA RATIFICATION AND OF THE MAJOR NEEDS OF THE TURKISH MILITARY WHICH WE HAVE IDENTIFIED, WE BELIEVE IT ESSENTIAL TO MAINTAIN OUR ASSISTANCE AT THE LEVEL WE HAVE REQUESTED: $550 MILLION IN FMS AND $73 MILLION IN ESF.

GREECE IS AN EQUALLY IMPORTANT NATO PARTNER ON THE ALLIANCE'S SOUTHERN FLANK. OUR DEFENSE RELATIONSHIP WITH GREECE INCLUDES IMPORTANT MILITARY FACILITIES, WHICH WE HOPE TO RETAIN IN AN AGREEMENT THAT WOULD CONCLUDE SUCCESSFULLY OUR ONGOING BILATERAL TALKS ON THE BASES' FUTURE AFTER 1988. THESE FACILITIES ARE AN INTEGRAL PART OF THE WEST'S DEFENSIVE SYSTEM. THE GOVERNMENT OF GREECE HAS STATED THAT IT MAY TERMINATE OUR 1983 BASES AGREEMENT, AND THAT THE U.S. MUST DEMONSTRATE THAT ANY NEW ARRANGEMENT FOR U.S. BASES IS IN THE INTEREST OF GREECE. WE HAVE NO DOUBT THAT OUR CASE IS STRONG. NONETHELESS, WE HAVE TO KEEP IN MIND THAT THE LEVEL OF ASSISTANCE WE HAVE REQUESTED FOR GREECE WILL HAVE A BEARING ON THE PROGRESS THE UNITED STATES AND GREECE MAKE ON BASE TALKS.

NEXT, I WOULD LIKE TO SPEAK BRIEFLY ABOUT THE INITIATIVE THIS YEAR TO MAKE ALL FY 1989 FMS FINANCING "FORGIVEN." THIS INITIATIVE WILL HAVE TWO IMPORTANT EFFECTS. FIRST, IT WILL AVOID THE FURTHER INDEBTEDNESS OF THE COUNTRIES THAT RECEIVE THIS TYPE OF ASSISTANCE. MUCH HAS BEEN SAID AND MUCH INK

SPILLED ABOUT THE INTERNATIONAL DEBT CRISIS. FORGIVEN FMS WILL ALLOW RECIPIENT COUNTRIES TO USE CASH FLOW WHICH THEY NORMALLY WOULD HAVE REQUIRED FOR NEW DEBT SERVICE TO HELP PAY BACK OTHER DEBT. THE NET EFFECT WILL BE TO IMPROVE THE FINANCIAL POSITION OF FMS BORROWERS.

MY SECOND POINT IS THAT WITH THIS "HIGHER QUALITY" OF MONEY WE CAN PARTIALLY COVER FUNDING SHORTFALLS. AGAIN, BY PROVIDING FINANCING THAT DOES NOT HAVE TO BE PAID BACK, COUNTRIES' NET FOREIGN EXCHANGE POSITIONS WILL IMPROVE. ANY STUDY OF THE TIME VALUE OF MONEY WILL SHOW THAT A FORGIVEN FMS PROGRAM WILL PROVIDE GREATER BENEFITS IN THE MEDIUM AND LONG TERM TO A RECIPIENT NATION. WHAT THE PROGRAM DOES NOT DO, HOWEVER, IS PROVIDE THE HIGHER AGGREGATE LEVELS THAT I BELIEVE ALL OF US WOULD LIKE TO SEE TODAY, BUT WHICH ARE NOT POSSIBLE GIVEN OUR BUDGET CONSTRAINTS. THEREFORE, THE NEED FOR FORGIVEN FMS IS NOW GREATER THAN IT HAS EVER BEEN. I URGE THE SUBCOMMITTEE TO SUPPORT THIS PROPOSAL.

I WOULD LIKE TO DEVOTE SOME TIME HERE TO THE CONTROVERSIAL SUBJECT OF CONGRESSIONAL EARMARKING. NOBODY DISPUTES CONGRESSIONAL AUTHORITY TO APPROPRIATE MONEY AND PLACE CONDITIONS ON ITS USE. NOR DOES ANYBODY DISPUTE THAT CONGRESS CAN APPROPRIATE INTELLIGENTLY ONLY IF IT KNOWS HOW THE ADMINISTRATION INTENDS TO SPEND THE MONEY. HOWEVER, IN FY 88 CONGRESS EARMARKED 94.69% OF ALL SECURITY ASSISTANCE FUNDS. THE RESULT IS MASSIVE CONSTRAINTS WHICH TEND TO DEFEAT THE OBJECTIVES OF THE SECURITY ASSISTANCE PROGRAM BY IMPOSING INSURMOUNTABLE RIGIDITIES ON THE MANAGEMENT OF THE PROGRAM.

I ACKNOWLEDGE THAT THE PRIORITIES WHICH CONGRESS ASSIGNS

TO THE SECURITY ASSISTANCE PROGRAM ARE ALMOST ALWAYS THE SAME AS THOSE THE ADMINISTRATION USES DURING ITS DELIBERATIONS ON SECURITY ASSISTANCE ALLOCATIONS. OFTEN THE COUNTRY LEVELS EARMARKED ARE IDENTICAL TO THOSE IN THE ADMINISTRATION'S REQUEST. HOWEVER, WHEN SOME COUNTRIES ARE "FENCED OFF" BY LEGISLATION AND THE AGGREGATE RESOURCES ARE CUT SIGNIFICANTLY BELOW THE REQUESTED LEVELS, THE BURDEN OF REDUCTION FALLS MASSIVELY ON NON-EARMARKED PROGRAMS. THIS EARMARKING MAKES IT DIFFICULT TO ALLOCATE AVAILABLE RESOURCES TO MEET MINIMUM REQUIREMENTS WORLDWIDE. IT MAKES READJUSTMENTS FOR NEW CIRCUMSTANCES AND PRIORITIES NEARLY IMPOSSIBLE.

NOBODY IS MORE AWARE THAN I THAT AS A MEMBER OF THE HOUSE I SOMETIMES HELPED APPLY CONGRESSIONAL EARMARKS AND OTHER PROVISIONS TO ENSURE THAT THE ALLOCATION OF SECURITY ASSISTANCE FUNDS MET CONGRESSIONAL CONCERNS. I FULLY UNDERSTAND THE POLITICAL FORCES THAT DRIVE EARMARKING. HOWEVER, LET ME POINT OUT THAT CONGRESSIONAL EARMARKING OF SECURITY ASSISTANCE ROSE FROM JUST UNDER 50% IN FY 1985 TO ALMOST 95% IN FY 1988. DURING THAT PERIOD THE AGGREGATE FUNDING LEVEL FOR SECURITY ASSISTANCE DECLINED 25%. THE EFFECT OF THESE REDUCTIONS, COMBINED WITH INCREASED EARMARKING, HAS BEEN UTTERLY PREDICTABLE. THE SMALLER, LESS VISIBLE PROGRAMS HAVE BORNE THE BRUNT OF BUDGET CUTTING EXERCISES. YET THESE ARE OFTEN THE PROGRAMS WHICH DOLLAR FOR DOLLAR PROVIDE THE LARGER POLICY PAYOFFS. IN FY 1988 WE HAD TO ZERO OUT ONE OR MORE SECURITY ASSISTANCE PROGRAMS IN THE FOLLOWING 30 COUNTRIES: LEBANON, SPAIN, BELIZE, BOLIVIA, COLOMBIA, COSTA RICA, DOMINICAN REPUBLIC, ECUADOR, HAITI, JAMAICA, PANAMA, PERU, URUGUAY, BOTSWANA, CAMEROON, CENTRAL AFRICAN REPUBLIC, GAMBIA, GUINEA, KENYA, LIBERIA, MADAGASCAR, MAURITIUS, MOZAMBIQUE, NIGER, SUDAN, TANZANIA, ZAIRE, ZAMBIA, FIJI, INDONESIA, PLUS THE EASTERN CARIBBEAN.

IN EAST AFRICA SOME OF THESE COUNTRIES PLAY IMPORTANT ROLES IN OUR PERSIAN GULF AND INDIAN OCEAN POLICIES BECAUSE OF THE ACCESS ARRANGEMENTS WE HAVE WITH THEM. A RELATIVELY INEXPENSIVE COASTAL SECURITY PROGRAM PLAYS A MAJOR ROLE IN THE EFFORTS OF SEVERAL WEST AFRICAN NATIONS TO PROTECT THEIR IMPORTANT FISHING AREAS.

THE FUNDING CUTS IN SOUTH AMERICA MEAN THAT WE CANNOT SUPPORT THE MILITARY IN THOSE COUNTRIES WHOSE PROFESSIONAL DEVELOPMENT IS SO CRUCIAL TO OUR GOAL OF SUPPRESSING NARCOTICS TRAFFIC AND SUPPORTING FRAGILE CIVILIAN DEMOCRACIES. THESE CUTS REALLY MEAN THAT MUCH OF OUR RHETORIC ON THE NARCOTICS PROBLEM AND DEMOCRATIZATION WILL REMAIN JUST THAT -- RHETORIC.

THE GOVERNMENT OF COLOMBIA, SOUTH AMERICA'S OLDEST DEMOCRACY, AND ITS MILITARY ARE ATTEMPTING TO TAKE AN INCREASING ROLE IN THE FIGHT AGAINST DRUG TRAFFICKERS. AT THE SAME TIME THEY HAVE TO STRUGGLE AGAINST A GROWING GUERRILLA INSURGENCY. THE TWO WORDS THAT MIGHT BEST DESCRIBE THE SITUATION FOR THE GOVERNMENT OF COLOMBIA ARE "UNDER SIEGE." THE NARCOTICS TRAFFICKERS AND GUERRILLAS ARE SERIOUS THREATS TO COLOMBIAN DEMOCRATIC INSTITUTIONS. THE ZEROING OUT OF MAP FUNDS FOR COLOMBIA IN FY 1988 COMES AT A PARTICULARLY UNFORTUNATE TIME. MUCH OF WHAT THE MILITARY NEEDS TO DEAL WITH THE GUERRILLAS WOULD ALSO IMPROVE ITS ABILITY TO ASSIST THE NATIONAL POLICE AGAINST THE NARCOTICS TRAFFICKERS. IN SPITE OF ASSASSINATIONS AND OTHER THREATS TO GOVERNMENT AND JUDICIAL OFFICIALS, THE GOVERNMENT OF COLOMBIA REMAINS

COMMITTED TO COUNTERING BOTH CHALLENGES. THE PROSPECTS FOR SUCCESS ARE SEVERELY LIMITED BY OUR INABILITY TO PROVIDE ASSISTANCE.

I DO NOT BELIEVE THAT THE CONGRESS IS GOING TO GIVE UP ITS PROPENSITY TO EARMARK JUST ON MY URGING, NO MATTER HOW ELOQUENTLY I MAKE MY CASE. NOR IS THIS ADMINISTRATION, NOR ANY SUCCESSOR, GOING TO LOOK KINDLY ON WHAT IT WILL ALWAYS SEE AS AN EROSION OF ITS ABILITY TO CONDUCT A FLEXIBLE AND RESPONSIVE FOREIGN POLICY IN A COMPLEX AND CHANGING WORLD ENVIRONMENT. NONETHELESS, WE MUST FIND SOME ACCOMMODATION CONSISTENT WITH OUR RESOURCE LIMITATIONS AND POLICY IMPERATIVES.

IN THE DEDICATION TO U.S. NATIONAL INTERESTS THAT THE CONGRESS AND THE ADMINISTRATION SHARE, WE HAVE TO COOPERATE. I WOULD LIKE TO SUGGEST THAT WE REMAIN IN CLOSE CONTACT DURING THE BUDGET PROCESS THIS YEAR. I AM AT YOUR DISPOSAL. IF YOU WANT TO DISCUSS ADMINISTRATION VIEWS OF CONGRESSIONAL INITIATIVES, PLEASE FEEL FREE TO CALL ON ME. IF YOU NEED INFORMATION, PLEASE LET ME KNOW, AND I WILL TRY TO OBTAIN IT FOR YOU. WE HAVE TO PRODUCE THE BEST SECURITY ASSISTANCE EFFORT WE CAN. THE PRICE OF FAILURE IS CLEARLY MUCH TOO HIGH.

## DEFENSE SECURITY ASSISTANCE AGENCY

### STATEMENT OF LT. GEN. CHARLES W. BROWN

Senator INOUYE. Thank you very much.

General Brown?

General BROWN. Thank you for the opportunity as the Defense representative to address your subcommittee on the fiscal year 1989 request for military assistance.

Mr. Chairman, this is my first time here, but I'm aware of and I appreciate the support this committee has provided to our military assistance effort over the years. I too wish to commend this committee for its efforts on behalf of the budget summit agreement. I also want to thank the committee for its leading role in securing the FMS debt refinancing authority. Secretary Carlucci strongly supports this authority.

Mr. Chairman, I regret that I have not had the opportunity to meet with you before this hearing. However, my staff and I have been working closely with Mr. Richard Collins whom I've grown to respect. In fact, anyone who would shave off his beard to take a flight in an F-15 can't be all bad.

## BUDGET REDUCTIONS IN MILITARY ASSISTANCE PROGRAMS

Anyway, despite these bright spots, military assistance is in a crisis. As you well know, overall funding for FMS credits and MAP has been cut 17 percent since 1985. More significantly, as this chart shows, a dramatic increase in the amount of funds earmarked, as has been pointed out, for a handful of programs has meant that the rest of the world comprising over 40 countries has had to bear the funding reduction of 77 percent. Consequently, over 25 countries were unfunded, completely unfunded, in 1988, and most of the others were funded well below their minimum requirements. In fiscal year 1988, the international military education and training program and the special defense acquisition fund also experienced sharp declines.

This next graphic shows where the funding cuts have occurred. The circles represent country funding levels and are scaled to one another. The red rings represent the funding cuts since the program peaked out in 1985. Circles that are solid red represent programs that have lost all of their funding. The blue rings represent funding increases since 1985. Funding reductions clearly predominate.

Our military assistance programs support firm military requirements that buttress our national security.

If I may quote from a recent report prepared by the President's Commission on Integrated Long-term Strategy:

> The Commission identified security assistance as the most important means to preserve free peoples against violence which could "imperil a fledgling democracy (as in El Salvador), increase pressures for a large-scale migration to the United States (as in Central American wars), jeopardize important American bases (as in the Philippines), threaten vital sea lanes (as in the Persian Gulf), or provide strategic opportunities for the Soviet Union and its proxies."

We know what it takes to support our national strategy and we have been unable to adequately do so over the last few years. We have sent countries to the well only to find it dry. We have made military assistance a decrement, not a national security multiplier. As the report goes on to state, "Current security assistance programs are seriously underfunded for pursuing an integrated, long-term strategy."

The military objectives we are endeavoring to serve have been compromised by severe funding cuts. For instance, countries engaged in or facing conflict cannot adequately support their forces.

El Salvador, for example, is being forced to exhaust its reserve stocks and defer essential maintenance. It may even have to deactivate some forces before the end of this year. Chad cannot fully support its U.S.

equipment. If hostilities resume, we may have to resort to emergency authorities.

Jordan, a country that is very important to Middle East peace policy and that faces a large threat in neighboring Syria, has seen its funding decline by 71 percent since 1985. Its fiscal year 1988 funding will only cover two-thirds of its sustainment requirements. Further, U.S. unwillingness to respond to Jordan's legitimate need for advanced defense systems have pushed Jordan into the arms of other suppliers. Indeed, we have reached an unfortunate milestone for our Jordanian program. We are now delivering the last major end item the Jordanians have purchased from us. Jordan has acquired from other sources most of the major items we denied them in 1985.

## FOREIGN BASE RIGHTS AND ACCESS PRIVILEGES

Funding reductions are posing a real threat to critical foreign base rights and access privileges, as has been pointed out. Portuguese Prime Minister Cavaco Silva has personally expressed to Secretary Carlucci his concern about the impact of inadequate U.S. funding on Portuguese modernization programs. At the prime minister's request, Portugal and the United States have initiated consultations on security cooperation which will include a review of our Lajes base agreement. And I might add that I am deeply involved in that process.

Turkey, though having renewed the DECA, remains very dissatisfied with its assistance level, which in 1988 fell $95 million short of its minimum sustainment and ongoing modernization requirements.

We have lost prepositioning rights in one African country. We are encountering obstacles to defense cooperation in Kenya whose funding has declined by 75 percent since fiscal year 1985. Our important access agreement with Kenya is subject to termination with 1 year's notice after 1990.

Somalia's funding has been cut by 83 percent since 1985. Our access agreement with Somalia, which is highly valued by our central command, is also subject to termination with 1 year's notice after 1990. We anticipate a difficult renegotiation.

Our efforts to foster stable, democratic governments by building professional militaries has been undermined by our need to zero out MAP funding for more than 25 developing countries in 1988. Sixteen of these countries are fledgling democracies in Latin America and the Caribbean.

Many of the Latin American and Caribbean countries that went unfunded in 1988 are also major drug-producing or transit states, such as Colombia, Bolivia and Jamaica. Funding cuts seriously undermine our efforts to work with those countries to combat the narcotics problem.

## DRUG INTERDICTION EFFORTS

Mr. Chairman, there has been a lot of discussion in these halls lately about using U.S. forces to interdict drugs. In my view, this is a more logical mission for local military forces with adequate assistance from the United States to be sustained, of course, over time and the time needed to lick this problem.

### 7/10 RATIO ON EXCESS DEFENSE ARTICLES

Military assistance has been adversely affected by a number of other measures passed in fiscal year 1988 that impair the administration's flexibility. Provisions that should be eliminated include imposing the 7/10 ratio on the provision of excess defense articles to Greece and Turkey under the southern region amendment, extending the SRA to non-NATO countries, restricting the transfer of Stinger missiles and depleted Uranium antitank ammunition. In particular, I want to point out that the 7/10 requirement for the SRA may prevent the administration from making any substantive offerings of excess equipment to Greece and Turkey in this year and perhaps also in 1989.

I also urge the committee to support administration initiatives to provide a permanent indefinite borrowing authority for the guaranty reserve fund; to exempt IMET from the general foreign assistance restrictions such as the Brooke amendment; and to provide multiple year obligational authority for the special defense acquisition fund.

Furthermore, I ask that the committee delete the provision in the fiscal year 1988 continuing resolution that would terminate MAP merger after fiscal year 1989. In light of the new reprogramming requirements enacted in the fiscal year 1988 continuing resolution, terminating MAP merger will not increase congressional oversight of the military assistance programs, but will substantially increase the administrative burden and costs of implementing the provisions.

Our fiscal year 1989 request for military assistance seeks to remedy the worst deficiencies of fiscal year 1989. It is a constrained military needs budget that in almost all cases covers only sustainment of existing U.S. equipment, progress payments for ongoing programs, and some very limited essential modernization. The levels for IMET and SDAF require your particular attention. It is a part of the overall foreign assistance request that conforms to the budget summit agreement and preserves the historical balance between economic and military aid.

All in all, there is little margin for change in this funding request. If it is skewed by reduced aggregate funding or earmarks, more country programs will have to be abandoned and others will be funded again at inadequate levels.

I believe we have submitted a realistic request that is sensitive to congressional priorities, and I hope this committee can fully support it.

Sir, this concludes my remarks.

[The statement of Gen. Charles Brown follows:]

# STATEMENT OF

# LIEUTENANT GENERAL CHARLES W. BROWN

# DIRECTOR,

# DEFENSE SECURITY ASSISTANCE AGENCY

Thank you, Mr. Chairman, for the opportunity to address your subcommittee on the FY 1989 Request for Military Assistance. This is my first time here, but I am aware of and I appreciate the support this subcommittee has provided to our military assistance effort over the years. I look forward to continuing to work closely with this subcommittee to effectively address the serious national security issues involved in our military assistance programs. Because the Administration's FY 1989 Foreign Assistance Request is a balanced request that conforms to the budget agreement reached last year between the Administration and the Congressional leadership, I am hopeful that we will have much to agree on.

## PURPOSE OF MILITARY ASSISTANCE

Our military assistance programs - FMS Credit Financing (FMSCR); the Military Assistance Program (MAP); and International Military Education and Training (IMET); are a vital instrument of our national security policy, an essential investment in U.S. defense. They establish productive relationships with foreign political and military leaders, and are instrumental to obtaining and preserving access to strategic foreign military facilities. They enable foreign forces to handle threats to U.S. interests. They give countries very tangible incentives to support U.S. policy, and demonstrate that we have an interest that goes beyond rhetoric. They help countries achieve the security they need to develop successful economies and open political systems.

The military assistance programs are cost effective. By enlisting the support of friends and allies, they achieve real security objectives at far less expense than could be achieved by the U.S. on its own. This point is particularly salient in light of the decline in real U.S. defense spending. Now more than ever, we must squeeze the most we can from every dollar which contributes to our national security.

## MILITARY ASSISTANCE ACCOMPLISHMENTS

As the committee well knows, our military assistance effort, like other elements of our foreign assistance effort, has suffered severe funding reductions over the last several years in the wake of deficit reduction. These reductions have had serious implications for our national security policy.

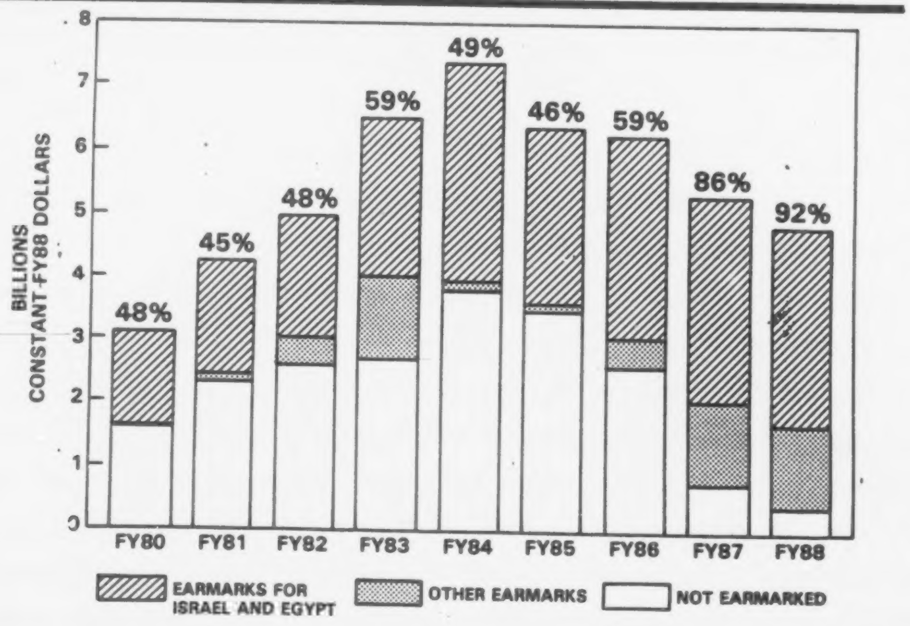
Security assistance funding has suffered larger proportionate funding cuts over the last several years than the rest of the foreign assistance effort. In fact, from FY 1986 to FY 1988, security assistance declined by 16 percent while other discretionary foreign assistance funding increased by 3 percent. Military assistance began its decline after FY 1984, a year earlier than most other programs.

Military assistance funding had increased in the first half of this decade in response to pressing requirements, such as base rights; Middle East peace; the Soviet/Afghan threat to Pakistan; Central American insurgencies supported by hostile powers; Libyan aggression in Chad; the Vietnamese threat to Thailand; and the threats to our vital interests in the Persian Gulf, especially as a result of the Iran-Iraq War.

These investments clearly paid off. We renewed base agreements with every base rights country receiving security assistance, and financed some much-needed force modernization for our southern-tier NATO allies. Israel remains stronger than all its possible enemies combined, and Egypt remains at peace with Israel and firmly retains an independent foreign policy. Pakistan has preserved its independence and has taken important steps toward democracy, and the Soviets are now pulling out of Afghanistan. The tide of insurgency in El Salvador was checked. Chad has pushed Libya back to the border, teaching Libya an invaluable lesson about intervention. Thailand has contained aggression along its borders, as Vietnam tries to find a way to escape its own interventionist quagmire. We greatly enhanced our ability to execute our Southwest Asia strategy by preserving our access agreements with Kenya, Somalia and Oman, and carrying out facilities upgrades in these countries. Military assistance was not solely responsible for these accomplishments, but it played a major role.

These challenges, however, are not yet behind us, and new ones have come to the fore, particularly the intensification of the insurgency in the Philippines and the drug war in Latin

FMS CREDITS AND MAP PERCENTAGE EARMARKED BY CONGRESS



America and the Caribbean. Continued adequate levels of military assistance intelligently applied are needed to preserve past successes and achieve new ones. Unfortunately, severe funding reductions and reduced Administration flexibility in the application of assistance have already cost us some achievements, and threaten many others.

## AGGREGATE FUNDING HISTORY

This graphic depicts the two forces behind the severe FMS Credit and MAP funding cuts suffered by the vast majority of our recipient countries since FY85: aggregate funding reductions and increased earmarking. Total funding has declined over this three-year period by $1 billion or over 17 percent. At the same time, the percentage of funding earmarked has increased from 46 percent to 92 percent. In gross terms, earmarked funding has increased by $1.75 billion, though the number of programs earmarked has only increased from 3 to 8. Non-earmarked funding has declined by $2.75 billion; funding available for the more than forty other programs funded in FY 1985 but not earmarked in either FY85 or FY88 has declined by $1.15 billion or 77 percent. Consequently, by FY 1988, only 16 of those more than 40 other programs are receiving any FMS Credits or MAP.

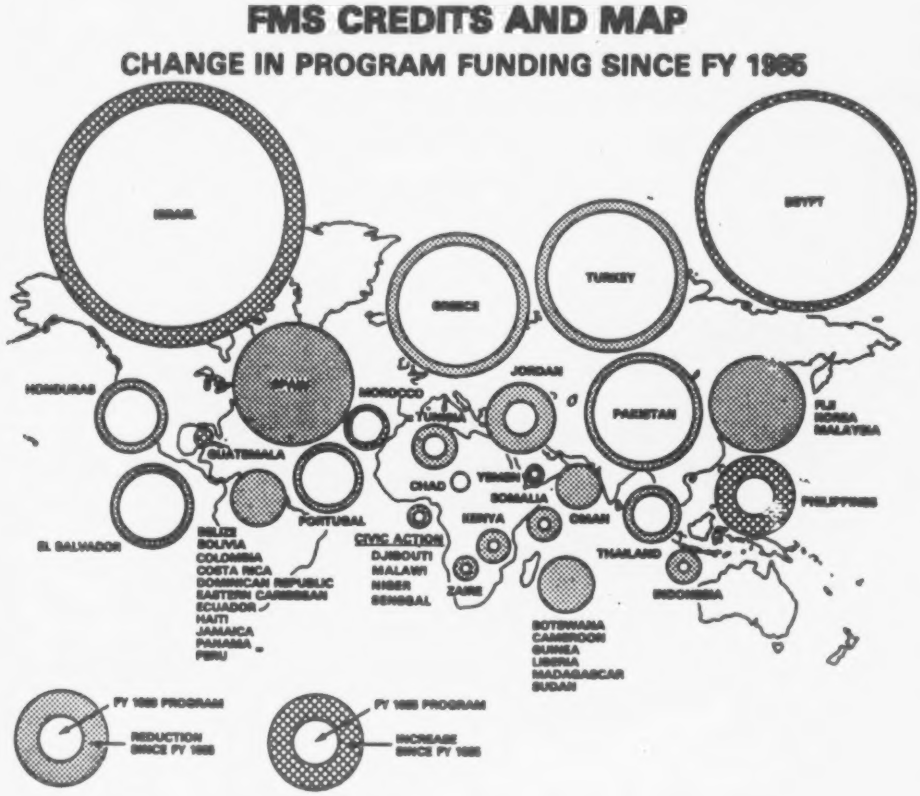
Some in the Congress have rebutted Administration complaints about excessive earmarking by saying that Congress often reflects the Administration's own priorities by placing a floor on country funding at or below Administration request levels. This argument ignores the critical link between total available resources and specific country funding. When total resources are inadequate, the funding cuts have to be distributed on the margin where they most protect U.S. security interests. Given the decline in funding, Congressional earmarks are not always accomplishing this, thus scarce foreign assistance resources are not being optimally utilized to the benefit of this country. Furthermore, Congressional earmarks sometimes exceed Administration request levels.

The FMSCR and MAP programs were not the only military assistance programs to bear large funding reductions. The inexpensive but highly-effective IMET program, whose funding fared relatively well through FY 1987, suffered a very sharp and detrimental cut of 15 percent this year. Congressional authority to let the Army fund the fixed costs of the United States Army School of the Americas will mitigate the cut, but the number of foreign military personnel utilizing the program will still have to be significantly reduced. These IMET cuts only compound the detrimental effect of the FMSCR/MAP funding reductions on our relations with these countries.

The Special Defense Acquisition Fund (SDAF) also suffered a very sharp drop in its spending authority in FY 1988, falling by approximately $80 million or 25 percent. The SDAF, which procures defense equipment in anticipation of foreign sales, enables the U.S. to respond to urgent defense needs of friends and allies with less resort to drawdowns from U.S. forces. Reduced SDAF spending authority could precipitate increased emergency drawdowns from U.S. forces, especially when decreased U.S. defense spending could produce longer procurement lead times for many items.

It is difficult to understand why a program as valuable as SDAF suffered such a large reduction when that reduction will have no significant effect on the budget. SDAF, as a revolving fund, is spending only previously appropriated funding (from certain receipts from FMS sales); its spending authority is not scored as budget authority, and hence against the budget authority ceiling; and it outlays at an extremely slow rate. I ask that you support our request for $350 million in SDAF obligation authority in FY 1989.

COUNTRY IMPACTS


FMS CREDITS AND MAP
CHANGE IN PROGRAM FUNDING SINCE FY 1985
ISRAEL
EGYPT
GREECE
TURKEY
SPAIN
HONDURAS
GUATEMALA
EL SALVADOR
MOROCCO
TUNISIA
PORTUGAL
BELIZE
BOLIVIA
COLOMBIA
COSTA RICA
DOMINICAN REPUBLIC
EASTERN CARIBBEAN
ECUADOR
HAITI
JAMAICA
PANAMA
PERU
JORDAN
CHAD
YEMEN
SOMALIA
KENYA
OMAN
CIVIC ACTION
DJIBOUTI
MALAWI
NIGER
SENEGAL
ZAIRE
BOTSWANA
CAMEROON
GUINEA
LIBERIA
MADAGASCAR
SUDAN
PAKISTAN
FIJI
KOREA
MALAYSIA
PHILIPPINES
THAILAND
INDONESIA
FY 1988 PROGRAM
REDUCTION SINCE FY 1985
FY 1985 PROGRAM
INCREASE SINCE FY 1985

This graphic shows the magnitude and breadth of the funding reductions our FMSCR and MAP programs suffered. The circles represent country funding levels, and are scaled to one another. The white interior of circles with blue rings [hashed pattern in black and white graphics] represents FY 1985 funding, and the blue rings themselves represent the funding increase since FY 1985. The white interior of circles with red rings [or dot pattern in black and white graphics] represents FY 1988 funding, and the red rings show the reduction since FY85. Circles that are solid red represent programs that have lost all their funding by FY 1988. Red, the color of funding reductions, predominates; of 51 programs funded in FY 1985, only six -- Israel, Egypt, Morocco, the Philippines, Guatemala, and Chad -- enjoyed net increases over the period FY 1985 to FY 1988 (Chad, however, is down $3.5M from FY87). All of these countries but Chad were earmarked by the Congress in FY 1988.

In FY 1987, in the face of the large decrease to total funding and the simultaneous large increase in earmarked funding, the Administration sought to preserve programs and country relations by avoiding the zeroing-out of funding for more than a few countries. Most countries were funded well below the levels needed to sustain existing U.S. equipment.

In FY88, a further reduction in total funding, of which an unprecedented 92 percent was earmarked, left the Administration no choice but to deny any funding to a further 25 programs. Only three countries in Latin America and the Caribbean received MAP funding; 17 were unfunded, including states of the North Andean and Caribbean regions with their serious drug problems. Seven countries went unfunded in Africa. Most funded countries are nevertheless still funded well below their sustainment requirements, including such key countries as Turkey, Tunisia, Jordan, Kenya, and Somalia.

While these general figures tell a great deal, the impacts on specific key countries and their real world implications can be even more dramatic.

I am especially concerned with the impact of the last few years' reductions on Portugal. In our 1983 exchange of notes concerning continued use of the strategic Lajes air base, we made a best efforts pledge to achieve a rising trend in military assistance funding to $125 million, and to maintain that level. While we achieved the $125 million level in FY 1985, the growing earmarks and declining funds have forced us to cut FMSCR/MAP funding for Portugal to $82.5 million in FY88, a 34 percent drop. As the poorest member of NATO after Turkey, Portugal is almost wholly dependent on assistance from the U.S. and other NATO allies to maintain its existing defense equipment and finance much-needed modernization, such as its NATO frigate program and outfitting its NATO brigade. These funding cuts will delay major modernization programs, and probably eliminate smaller ones.

Inadequate funding also has real implications for our base rights in Portugal, which are critical to a number of our regional strategies. Secretary Carlucci has had several lengthy meetings with Portugese Prime Minister Cavaco Silva in which the Prime Minister personally expressed his concerns about the deleterious effects FY 1988 security assistance levels will have on the modernization of Portugal's armed forces. At the Prime Minister's request, Portugal and the U.S. have initiated consultations on security cooperation, including a review of the Lajes Base agreement.

We are trying to do more for Portugal through the Southern Region Amendment, but are limited in what we can do through this vehicle. After the first flush of excess equipment in FY 1987, there is not much left that is useful for Portugal, either because the equipment is obsolescent or in poor condition or it is not compatible with Portugal's force structure. While we will continue to the best of our ability to utilize SRA to assist Portugal, a substantial funding increase for Portugal in FY 1989, as reflected in our request, is absolutely imperative.

I am also very concerned about the impact on Turkey. In the first half of this decade, assistance levels enabled Turkey to initiate such desperately-needed force modernization efforts as F-16 procurement and tank modernization. Yet, since FY85, Turkey's FMSCR/MAP has declined by 30 percent. In FY 1987, we could just barely cover support of existing U.S. equipment and payments for on-going programs in Turkey; no further modernization of Turkey's largely obsolete equipment could be financed. Excess defense articles provided under the Southern Region Amendment have been useful and much appreciated by Turkey, but do not compensate for the modernization foregone as a result of the funding reductions. The SRA will also be of declining utility as useful excess defense articles become scarce.

Substantial assistance for Turkey from our NATO allies, especially Germany, is highly important, but does not compensate for the effect declining U.S. funding is having on U.S.-assisted projects. Despite this situation and its political fallout in Turkey, Prime Minister Ozal demonstrated Turkey's continued commitment to Western security by signing the DECA renewal in 1987.

In FY 1988, however, Turkey's FMSCR/MAP allocation, while unchanged from FY 1987 level, does not, unlike in FY 1987, cover their minimum requirements for sustainment and on-going programs, but falls $95 million short. That is, those minimum requirements have grown. Turkey thus perceives declining U.S. support for, and appreciation of, a loyal ally situated in a strategic and dangerous part of the world and burdened with serious military deficiencies it can not alone afford to remedy.

A democratic government such as Turkey's (and Portugal's) can not ignore inevitable public pressures for a reaction. The delay in the ratification of the DECA until February 1988 is a relatively mild response. Failure to provide more adequate levels of assistance and to moderate our handling of sensitive issues between our two nations not only leaves a strategic ally inadequately armed, but could also invite reactions with more serious implications for our security cooperation and overall relations. Our request for Turkey in FY 1989 is the least we can do to avoid these real dangers.

Jordan is another important country that has suffered severe funding reductions with detrimental effect for U.S. policy. FMSCR/MAP funding for Jordan has declined by almost $65 million or 71 percent since FY 1985. FY88 funding will cover only two-thirds of Jordan's sustainment requirement. Furthermore, the Administration has been prevented from selling Jordan the advanced systems it needs to defend itself against the larger and better armed forces of Syria.

Jordan is essential to progress toward a wider and more stable Middle East peace, and especially to a settlement of the explosive situation in the occupied West Bank. Jordan needs all the help it can get from us as it struggles to preserve its room for independent action in this dangerous area of the world. Adequate U.S. assistance, both as a means to acquire an effective deterrent force and as a tangible symbol of U.S. support, is the prerequisite, and not the reward, for bolder Jordanian efforts on behalf of peace.

Yet, as a result of sharp funding reductions and an unwillingness to provide Jordan with the advanced systems it needs, we have reached an unfortunate milestone in our military relationship with Jordan: we are now delivering the last major end item of our Jordanian military sales program. Our military relationship has been reduced to sustainment of older U.S. equipment and some training, and because of funding constraints we can not even do these tasks adequately.. Jordan has been compelled to turn to other suppliers to satisfy its legitimate self-defense needs; indeed, Jordan has acquired from other sources most of the weapon systems it requested from the U.S. in 1985. We are conceding to other countries the substantial value of a comprehensive and reliable military-to-military relationship with this important country, and are thereby undermining the attainment of our objectives in the Middle East.

We provide $3.1 billion a year in military assistance to Israel and Egypt to preserve peace in the Middle East; the $48 million requested for Jordan in FY 1989 is a worthwhile investment to establish a firmer base for that peace.

Tunisia, another important friend in the volatile Near East, has seen its FMSCR/MAP funding decline by 59 percent since FY 1985. It is funded below its sustainment requirement in FY 1988. Tunisia is a small country potentially vulnerable to the aggressive and unpredictable Libya on its border. We need to provide adequate U.S. assistance to the new government in Tunisia to help keep Tunisia strong and confident enough to deter Libyan aggression and resist accomodationist pressures.

Oman is a valuable friend in the strategic Persian Gulf region that saw its FMS Credit funding ended in FY 1987 due to U.S. budget constraints. Oman provides access privileges to U.S. forces under a 1980 agreement; that access is important to our ability to support our on-going escort operation in the Gulf, as well as more routine deployments in the region. This agreement is subject to termination with one year notice after 1990. The fact that we could not accomodate a country as important as Oman in our constrained FY 1989 FMS Credit Request, especially shortly before the access agreement is subject to renegotiation, attests to the difficulties we face in trying to support our national security interests in the current budget climate. It is all the more important that the IMET program be adequately funded to ensure that we can at least preserve at a sufficient level that aspect of our military assistance relationship with Oman.

In East Asia, long-time ally Thailand has suffered a 57 percent decrease in its FMSCR/MAP funding since FY 1985, despite the continuing Vietnamese threat on its Cambodian border. Serious fighting along the border with Laos, furthermore, consumed important Thai military assets. Our request for Thailand in FY 1989 provides a small but necessary increase over its FY 1988 allocation to cover essential requirements.

Indonesia, a strategically-situated country with a large voice in ASEAN, has had its FMSCR/MAP funding reduced by 88 percent since FY 1985. Our FY 1989 request for Indonesia will help ensure that previous programs continue.

In Africa, severe funding reductions have contributed to the loss of prepositioning rights in at least one country, and is threatening the future of access agreements with several other countries. Sudan, which received $45 million in FY 1985, is receiving no MAP funds in FY 1988, although some unexpended prior-year funds will sustain previous programs and assist them to patrol areas into which Libya has intruded. Somalia and Kenya have suffered 83 and 75 percent funding reductions respectively since FY 1985. Somalia was so unsettled when it learned of its low $5.5 million MAP allocation for FY 1988 that it abruptly cancelled scheduled joint military discussions. We are encountering obstacles in our defense cooperation with Kenya which is directly related to Kenya's serious displeasure with its continually declining assistance levels. Our access agreements with Somalia and Kenya, which are highly important to several regional defense strategies, are subject to termination on one year notice after 1990. I can not stress too much the importance of the increased aid we are requesting for these countries in FY 1989 to preserving the relations and access privileges we have successfully cultivated with them.

In Chad during the last two years, U.S. assistance made an important contribution to the Chadians' rollback of Libyan forces to the Aozou strip. Increased MAP funding was an important element of this assistance, but the bulk of supplies were provided through emergency drawdown authorities [FAA, sec. 506(a)]. The use of emergency drawdowns from U.S. stocks was clearly successful in that situation, but it can not be the basis of the long-term effort needed to consolidate these victories and establish the security Chad requires to unify its war-torn country and develop its impoverished economy. This requires an adequate and sustained security assistance program.

Yet, Chad is bearing a 39 percent reduction in its FY 1988 MAP funding vice FY 1987. This will not cover even basic sustainment for the trucks and two C-130s the U.S. has provided. If hostilities again erupt, we may have to resort to emergency authorities again. Our request for Chad in FY 1989 needs to be fully funded if we are to reduce this reliance on emergency drawdowns and to lay the basis for durable peace and development in that country.

Latin America and the Caribbean have been hit hardest of all by funding reductions this year. Only 3 of the approximately 20 countries of that region whose security we have consistently invested in during this decade are funded in FY 1988.

We have achieved great success in El Salvador during this decade, turning back a rising tide of leftist insurgency and right-wing terror while helping establish a democracy. Many said it could not be done. El Salvador is an instructive example of what can be accomplished through a balanced, sustained, and intelligently applied security assistance program that enjoys broad bipartisan support. At the same time, we can not afford to be complacent about El Salvador.

Despite the successes and the hopes for the Arias peace plan, the war in El Salvador is far from over. Yet, El Salvador's FMSCR/MAP funding has been reduced by 37 percent since FY 1985, and by 23 percent since just last year. This year's level of $85 million will cover only basic combat sustainment requirements; $24 million of combat loss replacements and infrastructure enhancement will have to be deferred. Reserves of spares and ammunition are being consumed, and some aircraft, patrol boats, and infantry battalions may have to be deactivated if additional funding is not forthcoming by the end of this year. Less tangible but no less important, declining U.S. support assaults the morale of this battered country and its armed forces.

We have requested $95 million in MAP for El Salvador in FY 1989. A recent assessment by the U.S. Southern Command and the El Salvador Armed Forces reveals that El Salvador actually requires several million dollars more just to sustain its forces next year. It is therefore of great importance to the continued integrity of El Salvador's counter-insurgency effort that we have sufficient funding and flexibility in FY 1989 to be able to fully fund this request level without prejudice to our other priorities.

Honduras has also experienced serious funding reductions, though it is a bulwark against Nicaragua's "revolution without borders". It peacefully transitioned to an elected civilian government, and supports the struggle to establish and preserve democracy throughout the region. Its forces are a deterrent to Nicaraguan aggression against Honduras without in turn threatening Nicaragua. U.S. military assistance, as a means to strengthen and to promote greater professionalism in the Honduran armed forces and as a vital demonstration of U.S. support, has been an essential underpinning of the key role Honduras plays in this region. Yet, Honduras has experienced a 40 percent fall in its MAP funding since FY 1985, and a 33 percent reduction since just last year. FY 1988 funding will cover only payments for the recently acquired F-5 aircraft and minimum sustainment. Reserve stocks will be run down, and maintenance will be deferred. No more modernization can be undertaken. Like El Salvador, the psychological impact of the reductions is severe. Our request for Honduras is essential to sustain existing equipment and on-going programs, and to give Honduras the confidence to continue to fully engage its neighbors in the regional peace process underway.

Guatemala is the only other country funded in the Western Hemisphere, earmarked by Congress at $7 million in MAP. We have finally been forced to zero-out funding for countries with serious drug trafficking problems - Bolivia, Colombia, Ecuador, Jamaica, and the mini-states of the Eastern Caribbean -after having increasingly underfunded them over the previous two years. We have thereby reduced the means and incentives for the military forces of these countries to vigorously pursue the difficult and dangerous war against narco-insurgency.

The impact and implications of this situation are particularly grievous in Colombia, where the drug war wages alongside and often overlaps a major leftist insurgency. Colombia's military and police forces are stretched too thin to effectively fight either; increasing executions of law enforcement and political officials threaten to make this democratic country ungovernable.

Within the limits established by the "budget summit", our FY 1989 request will restore some funding to these countries and attempt to get our assistance to their anti- narcotics and counter-insurgency efforts back on track.

Congressional caps on funding available for MAP general costs, especially when combined with the decline in the value of the dollar, have seriously impaired the planning and implementation of military assistance by requiring substantial cutbacks in personnel and operational costs, both overseas and in the United States. We can not just throw money at a country program; we need the people and facilities to administer the program in a manner that most cost-effectively contributes to the security of the country. Mr. Chairman, I ask for your help in ensuring that we have sufficient resources in FY 1989 to effectively administer the programs. We need $42 million to cover MAP general costs in FY 1989, of which $35 million will be necessary to meet the Overseas Program Administration requirements.

Our military assistance effort has also been hurt by several non-funding) provisions of the Continuing Resolution for FY 1988. These include the ban on the sale of STINGER air defense missiles and anti-tank rounds with a depleted uranium penetrating component (DU rounds) to countries other than NATO and major non-NATO allies. The limited exception for Bahrain on STINGERS does not fully address that threatened country's legitimate self-defense requirements, especially if these missiles have to be returned by June 1989.

STINGER missiles provide an effective and low-cost alternative to the many states which can not afford more expensive systems such as HAWK and CHAPARRAL but need an air-defense capability that they can deploy with their tactical forces. Because of the stringent safeguards we impose and the determination of countries to guard these systems as national assets, we judge that the danger of diversion is virtually nil. In fact, to date, no STINGERS provided to governments through the security assistance program have been diverted to unauthorized parties.

In the case of the DU Rounds, it is the standard kinetic energy round of the American tank. Countries will simply purchase tungsten rounds from other countries, and perhaps turn to them as suppliers of armored vehicles as well. Such an outcome reduces our leverage without denying the capability to countries and regions.

Congress should assess transfers of these items on a case-by-case basis when they are needed, as the Administration does, instead of legislating a preemptive across-the-board prohibition.

Another detrimental provision of the FY 1988 Continuing Resolution is the requirement that excess defense articles to Greece and Turkey be provided in the same ratio as their military assistance. This requirement may prevent the U.S. from making any substantive offers to Greece or Turkey this fiscal year and possibly also in FY 1989 primarily because the excess equipment which is available, and which would be of use to each, is not in the correct ratio. The delays imposed by this requirement may cause the Military Services to incur storage costs that would otherwise have been avoided. Moreover, once equipment is declared excess, it is no longer maintained. The utility of this equipment may diminish quite rapidly while in storage status.

The extension of the Southern Region Amendment to Israel and Egypt, furthermore, could dilute the utility of this program to the southern-tier countries of NATO, for whom it was established.

The SRA, in its original form, served important U.S. policy interests, providing the flexibility needed to meet military needs of all our Southern Region allies. We need a return to the former language in order to achieve the purpose for which the legislation was intended. If not, SRA could easily die on the vine.

Other detrimental provisions of the FY 1988 Continuing Resolution include an effective prohibition on the transfer of new U.S. equipment to Cyprus by any party and a prior notification requirement before undertaking new programs in Sudan, Ecuador, and Jamaica.

Mr. Chairman, I nonetheless appreciate that there were some bright spots last year. Foremost, the funding story would have been much worse if had not been for the budget agreement struck between the Administration and Congressional leadership which restored some funds to the account. I wish to acknowledge the efforts of this subcommittee in behalf of that agreement.

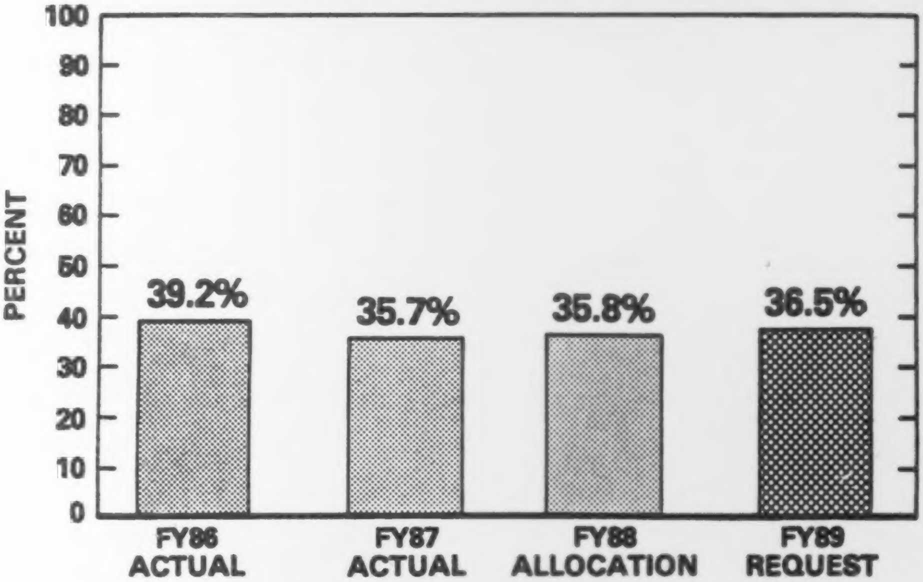
Another particularly bright spot is the FMS Debt Refinancing authority. This authority is a creative and valuable instrument for responding to the debt relief needs of many of our economically-distressed friends and allies who received FMS loans when interest rates were very high. Secretary Carlucci strongly supports this legislation. We are highly appreciative of this committee's leading role in securing this authority.

Other beneficial aspects of the Continuing Resolution include the two-and-a-half year extension of the Glenn-Symingtom waiver for Pakistan; the exemption of Argentina and Brazil from restrictions on training; the war-reserves stockpile in Thailand; allowing the Army to assume the fixed costs of the United States Army School of the Americas; and several provisions enhancing our military assistance program for Israel. All of these provisions are important boosts to a military assistance effort otherwise severely damaged by funding reductions and earmarks.

## FY 1989 REQUEST

Mr. Chairman, I know that you appreciate the impacts of these serious military assistance funding reductions. I also recognize that this committee and the Congress as a whole have had to make extremely painful choices as you have labored to reduce the federal deficit. We may disagree on some of the choices made, but we must look to how we can now best address the military challenges facing this country.

**MILITARY ASSISTANCE**
**AS A PERCENTAGE OF DISCRETIONARY FOREIGN ASSISTANCE BUDGET AUTHORITY**



MILITARY ASSISTANCE = FMSCR, MAP, AND IMET

This budget request is a start at the future, and one that I believe you can support. It is part of an Administration request for the 150 Function that conforms to the budget agreement. As this chart shows, the Request also preserves the balance between military and other foreign assistance that Congress has legislated for the past three years. The individual program levels address our real security requirements in the best way that can be done, given overall funding and political constraints.

This request reflects hard choices made to conform to budget realities. It is focused to support the basic military requirements of important friends and allies who lack the means to provide this support themselves. We are requesting aid this year for 10 fewer programs than we requested in FY 1988; Spain joins Korea as a "graduate" of our military assistance effort. Program request levels in almost all cases will cover only sustainment and the most essential modernization. Turkey exemplifies this approach; its request level is $60 million less than is needed to cover sustainment and on-going program requirements, but we believe that this level will allow the most essential programs to continue.

Let me speak to two country FMSCR/MAP request levels that I think you may have concerns about. First, you will note that the level requested for Greece is somewhat less than 70 percent of the level requested for Turkey, though Congress has repeatedly earmarked it at the 70 percent level. You are of course well aware that the Administration strongly opposes this earmark, as well as others, because it is an artificial construction that does not reflect actual needs. It has also skewed allocations in constrained budgets to the serious detriment of other priority programs.

The request level for Greece, however, is quite close to this traditional earmark requirement, representing 64 percent of the request for Turkey. More significantly, we propose for the first time that Greece receive 100 percent grant funding. Greece never received grant FMSCR or MAP prior to FY 1989, and was earmarked by Congress to receive $30 million in MAP or 9 percent of its total allocation in FY 1988. Turkey has traditionally received a much larger percentage of its total funding as grant aid, 64 percent in FY 1988. Thus, in terms of the total subsidy element of FMSCR and MAP funding, Greece will be substantially improving its traditional position relative to Turkey.

We are also requesting $15 million less for the Philippines than Congress earmarked for it in FY 1988, although no less than the Administration had requested for this year. The Administration strongly supports a vigorous military assistance program for the Philippines, and clearly the Philippines has a larger requirement. But, in a constrained budget $110 million is a reasonable level. In addition, the amount of assistance that the Philippines armed forces can optimally absorb this year is limited. The Philippines requires a great deal of assistance to resolve its security problems, but it should be applied in the context of an efficient and reliable long-term program.

The $52.5 million request for IMET is also a constrained but essential one. The request will restore funding to such important countries as Morocco and Pakistan, who were among those who suffered reductions in FY 1988. We are also requesting that Congress act to exempt IMET from restrictions such as the Brooke Amendment. IMET's objectives are primarily the longer-term goals of building strong and productive relations with and promoting professionalism within foreign military establishments; exempting IMET from restrictions such as Brooke will prevent shorter-term problems, such as loan arrearages, from interfering with the achievement of these longer-term objectives of exposing the younger military leaders to a good military education and our American values.

The Administration is also requesting a permanent, indefinite borrowing authority for the Guaranty Reserve Fund (GRF). The Admininistration currently has this authority only for FY 1989. The existing authority is fully responsive to the GRF's FY 1989 financial requirements. It also has prevented the GRF issue from obscuring the central focus of the Administration and the Congress in considering FY 1989 appropriations for military assistance, which, of course, is how best to serve the national security interests of the U.S. through these programs. The Congress should perpetuate these desirable outcomes by making the indefinite GRF borrowing authority permanent. Furthermore, the success of the FMS Debt Reform Initiative may well depend on investor confidence in the integrity of the GRF beyond FY 1989 since the GRF is the only source of funds to back up the government guarantees.

Mr. Chairman, the FY 1989 Request for Military Assistance represents a careful and delicate balancing of program requirements to best support U.S. security interests in the context of a severely constrained budget. Most of our military programs have already suffered more funding reductions than they can tolerate and still fully serve the purposes for which they were established. There is little margin for change. If this request is skewed by reduced aggregate funding or earmarks, more country programs will have to be abandoned and others will be funded at inadequate levels, and U.S. security will bear the consequences. Indeed, I hope we will not again see a 92 percent level of earmarking. I believe you can appreciate, Mr. Chairman, that while these earmarks may seem logical in the context of specific cases, their impact on the non-earmarked countries is devastating and seems to defy logic. We have submitted a realistic request sensitive to Congressional priorities, and I hope that this committee can fully support it.

## CONGRESSIONAL OVERSIGHT

To conclude my testimony, Mr. Chairman, I would like to discuss this committee's long-standing concern with its ability to oversee the use of military assistance funds. The House has asked for increased amounts of information on military assistance programs, and we have been forthcoming.

In May 1987, per the request of the Chairman of the House Appropriations Subcommittee on Foreign Operations, DSAA submitted a classified report detailing how countries intended to use requested FY 1988 military assistance monies. We agreed to send the Congress an updated report geared to the allocation of appropriated FY 1988 funds as soon as possible after the enactment of the appropriation, and have recently provided it. We also agreed and have so provided a classified annex to the Congressional Presentation Document for FY 1989 similarly detailing our planned FY 1989 programs.

The Continuing Resolution for FY 1988 extended formal reprogramming requirements to items of major defense equipment (MDE). The Administration must notify the Congress 15 days prior to committing funds for the purchase of MDE if the MDE was not previously justified to the Congress or it is more than 20 percent in excess of the quantities previously justified. The updated report we recently sent you on the use of FY 1988 military assistance monies constitutes the Congressional justification required by this new legislation, and therefore is the basis for reprogramming actions.

These reports and the reprogramming notifications that will flow from the new legislation substantially increase the program detail readily available to the Congress. We worked long and hard with this committee and your House counterparts to arrive at this point. I believe, and I hope you agree, that these additional reports and requirements will enable you to fully exercise your oversight responsibilities. We are willing to continue to work with you and your staffs to provide additional information from time to time as required.

In light of this, I do not believe that revocation of the Administration's authority to merge MAP funds with FMS Credits and country funds in the FMS Trust Fund (known as MAP Merger) is necessary or even helpful to Congressional oversight of the military assistance effort. Congress gave the Administration MAP Merger authority effective in FY 1982. This authority greatly increased the efficiency of the FMS system. It also enhanced Congressional oversight by simplifying and centralizing the military assistance effort.

Revoking MAP Merger would require DSAA to establish an entirely new accounting system for MAP paralleling the FMS Trust

Fund. This will increase the administrative burden of implementing military assistance, and siphon increasingly scarce resources away from already underfunded country programs. It will run directly counter to our very successful efforts over the last few years to streamline the FMS system by reducing the time and expense of handling FMS cases. It will not increase the Congress' ability to ensure that U.S. funds are used in accordance with the law and to the maximum benefit of the U.S.; indeed, it will only add another complexity to an already complex program. I ask the Committee to seriously reconsider the wisdom of terminating MAP Merger.

In sum, Mr. Chairman, our military assistance effort has been severely damaged over the last several years, primarily as a result of funding reductions coupled with unrealistic earmarks. Consequently, the infrastructure of security we have helped establish in countries with real security concerns around the world is deteriorating. Base and access rights are threatened in numerous countries, and countries facing or engaged in conflict are having to forego essential modernization and are unable to sustain existing equipment. I can not say just where the walls are going to break, but I fear that inevitably somewhere they will, and we and our friends and allies will be ill-prepared to respond.

Military assistance is not just about budget numbers; its about peace, security, freedom, and development. The request we have submitted for military assistance is the least we can afford to do in the situation we find ourselves in. It is truly a realistic and balanced Request sensitive to National Security and Congressional priorities. I hope you will support it.

## GENERAL QUESTIONING

### EARMARKING

Senator INOUYE. Thank you very much, General. In listening to your testimony, I gather that all three of you are concerned about earmarking. Of the fiscal year 1988 earmarks, which ones would you not have funded?

Mr. WHITEHEAD. I think we would have funded all of the countries that are earmarked, possibly though, in different amounts than the earmarked amounts. We felt that the earmarking in 1988 resulted in so little unearmarked funds that the unearmarked countries were damaged much more than the earmarked countries. And if we had had the flexibility to do so, we would have taken a little away from the earmarked amounts without closing out any of those countries in order to have more funds to give to the unearmarked countries, many of which had to be eliminated entirely.

Senator INOUYE. On the recently House-passed bill, what earmarks would you have proposed?

Mr. WHITEHEAD. We would have preferred no earmarks at all. If we were able to determine on our own, we would prefer no earmarks. We would prefer to have the flexibility to react to changing circumstances. The recently House-passed bill is heavily earmarked, much more than we would find really tolerable. I think I have the numbers here. In the ESF segment, out of a total of $3.2 billion, only $119 million, or 3.7 percent is unearmarked. And so, that $119 million has to be spread over a very wide number of countries. We had hoped to be able to restore funds to some of the countries that had been knocked out, but if that prevails, we will not be able to do so.

Senator INOUYE. I'm certain you'll agree that this process we're involved in is a joint process, and you would not expect the Congress to just automatically give everything you submitted to us, would you?

Mr. WHITEHEAD. I hope, sir, but not expect. As I look back over prior years, earmarking has only become a phenomenon of relatively recent years. It used to be that the Congress did give the administration, both this administration and previous administrations, considerably more flexibility in allocations of funds among countries.

If it is not possible to leave us free of earmarks, we would much prefer a system which earmarks a base amount and leaves us flexibility to add additional amounts as we think necessary, but leaves us more funds than we have had this year or would have next year under the House bill to deal with changing circumstances. It is very costly for a country to be left in the all other category that is not earmarked. They are very much disadvantaged by being left in that position.

### MILITARY AND DEVELOPMENTAL CUTS

Senator INOUYE. In looking over the President's budget, as you've noted, Mr. Secretary, military assistance programs have gone up 2 percent, and by so doing, you've maintained this 37 percent that we had in the last fiscal year. However, in further studying of the President's request, we note that for developmental assistance programs it has come down 1 percent. You have gone up 2 percent. Development assistance has come down 1 percent. And if you look over the total picture of military or security assistance—that's ESF plus military—that constitutes 60 percent of the total package. I'm certain as a representative of the State Department you will agree that the foreign policy of the United States is a combined effort involving not just military, but all aspects of assistance.

What would you say if the cuts were made equal, the developmental plus military?

Mr. WHITEHEAD. First, let me say that in my responsibility in the Department, I am just as responsible for development assistance as I am for our security assistance. And so, I have no responsibility to be prejudice in favor of one or the other. And I agree, of course, with your wise comment that our foreign policy depends on a proper balance between the two kinds of assistance.

The reason that we have a slightly higher portion of the increase going to security assistance in 1989 budget as compared with development assistance is that the security assistance over the last several years has been reduced disproportionately from the development assistance. And, therefore, we are trying to redress that situation a bit in our allocations this year. If you look at it as just one year, just the difference between 1988 and 1989, it would not be easy to justify. But if you look at it over a several-year period, I think you will find that the security assistance portion of total aid funds has still, in spite of the proposed increase for 1989, come down and the development assistance as gone up over the past 4 years.

## DISTRIBUTION OF RESOURCES

Senator INOUYE. In preparing your budget, OMB issued a memo to all agencies and this memo had this paragraph in it, if I may quote. "Fewer resources make it more important that those resources be used in significant countries at meaningful levels rather than scattered thinly throughout all regions." Have you followed this injunction?

Mr. WHITEHEAD. Well, we understand that injunction. Yet, it's hard to follow it to the letter. I think we feel that the complete closeout of a program in a country is damaging to our relations with that country. The need to completely terminate a program has a symbolic significance, and that to maintain a program at some level, even very small, is——

Senator INOUYE. Even if it is not meaningful?

Mr. WHITEHEAD. Even if it's not substantive is worthwhile simply to show a continued U.S. presence, a continued U.S. interest. And therefore, when we had to for the current year terminate programs in a number of countries, over 25 I believe the General said in his testimony, we felt that it did damage our interests in those countries.

General BROWN. I might add that in our 1989 request we do not attempt to restore all those countries back again.

Senator INOUYE. Are these security assistance programs or representation allowances?

Mr. WHITEHEAD. They are security assistance programs. Even the $500,000 program, which would be a tiny little program as these things go, would have meaningful results for the country because the country would be a very small country with a small military force and even that amount would be of significance.

I would just like to mention, to add to my response to your quotation from the OMB regulations, and point out that the OMB did approve our budget, including the allocations on a country-by-country basis. And so, if we did not follow their instructions to a T, at least we persuaded them that our final decisions were adequate and the budget that is before you does have OMB's approval, including the country allocations.

Mr. DERWINSKI. Senator, may I just add one point?

Senator INOUYE. Yes.

## GUINEA BISSAU

Mr. DERWINSKI. I made it a point in the last 2 years to travel to some of these countries where we have minimum programs. In fact, 2 months ago Guinea Bissau is a country where it achieved its independence. It was considered radical because of years of revolution and so on. Our relations with them have improved dramatically. And all we have really done for them—we have the Peace Corps. We have a small economic assistance program, $3 or $4 million. Our security assistance is $300,000. What it provides is repair of a couple patrol boats, training of a small crew to operate them, and it couldn't have had a greater impact.

On the other hand, as Mr. Whitehead pointed out, despite the admonition from OMB, when we deal with a country that is accustomed to receiving billions of dollars, you inform them you're able to squeeze out an extra $25 or $30 million, they consider it something that they're entitled to rather than a special effort on your part.

When I went into some of these small west African states and said I was authorized to advise them that we did have $200,000 for another patrol boat and trained a crew for them, why, I was for the moment the prince of the country. The appreciation and goodwill was totally out of proportion to the figures involved. And I would argue actually that we get more for our buck from some of these very small programs than we do the substantial amounts that are lost to the country where our aid is always so large it is now taken for granted.

## MILITARY ASSISTANCE FOR PANAMA

Senator INOUYE. At this moment, at least for the past 2 weeks, the front page issue has been Panama and the many actions taken by our Nation has been economic sanctions. However, I note that there is some military assistance set aside for Panama. Do we stop economic aid but provide military assistance?

Mr. WHITEHEAD. All assistance to Panama has been suspended. Let me just ask. General. What is in the budget for Panama? There are no funds proceeding in that direction at the present time. I am sure of that.

General BROWN. IMET funds only to the tune of $445,000 is all for fiscal year 1989. This was a wedge for Panama for fiscal year 1989. The figure is $445,000 in IMET funds. This was a wedge that we put in to that program in the event that relations stabilized.

Mr. WHITEHEAD. But no assistance funds of any sort are now going to Panama. Those programs have been terminated.

### FUNDING FOR PERU

Senator INOUYE. Are there any funds going to Peru?

General BROWN. There is $560,000 in IMET. That's all.

Senator INOUYE. How are the Soviets doing in Peru?

General BROWN. That's a difficult question. I think the relationship has had its ups and downs. As the relationship wanes, the Soviets pump more aid in there, but I would say the latest figures I saw—they have 50 to 60 advisers in Peru right now which is more than we have in all of South America.

### DEFENSE SECRETARY CARLUCCI'S 6-YEAR COMMITMENT TO PAKISTAN

Senator INOUYE. During a recent trip to Pakistan, Defense Secretary Carlucci reaffirmed our government's commitment for the 6-year, $4 billion foreign assistance package for fiscal years 1988 to 1993 to this country. However, I'm certain you will agree with me that in looking over the budgetary picture, this full commitment may not come within the designated timeframe. If that is the case, how will we reaffirm this commitment or how was the Secretary able to reaffirm this commitment when there is no promise that our budget picture will improve?

This is a 6-year package, and as you know, these countries like Pakistan get a little sensitive and edgy if you go up and say, friend, we have to cut it. Are we prepared to tell them that we will not be able to fulfill this commitment?

General BROWN. Mr. Chairman, I was with the Secretary on that trip. I believe his comments were to the effect that we would make our best efforts, and I'm only speaking now on the military assistance side. But that, as I recall, equates to about $290 million a year. We met that I believe in 1987, and 1988 was $260 million. And if you will notice, we are requesting $240 million for fiscal year 1989. However, that $240 million is in grant type funds which offsets the picture somewhat. That is where we are.

And we have had discussions with the Pakistanis about it. I think they are actually very understanding given the circumstances. They know the problems we're having overall with the military assistance budget. So, the relationship I think is not being impaired at the moment over that issue.

Senator INOUYE. When this commitment was made, and when the Pakistan package was developed, the Soviets were still in full force in Afghanistan. Now, the Soviets are moving out. Apparently all of their troops will be moved out according to schedule. Would that affect this Pakistan package? Or would it still be at the same level? Or will we reduce this now that the Soviet threat is not there?

Mr. WHITEHEAD. I would certainly hope we would not reduce it, Senator.

Senator INOUYE. But yet the justification for it is the presence of the Soviets.

Mr. WHITEHEAD. Yes. And, of course, the Soviet presence is still there. I believe that the existence of that 6-year commitment had a good deal to do with the Soviets' decision to withdraw, that it represented a firm, long-range commitment on the part of the United States to Pakistan not just a one-shot, 1-year commitment, but the symbolism the 6-year commitment was to the Soviets a factor in their decision that the United States was going to stick with the situation in Pakistan and not reappraise it year by year.

I would also add that Pakistan's needs and the needs to cope with the refugees which is a principal need that the Afghan war thrust on Pakistan, a financial need, continues, and that for at least the next year or two there will be substantial numbers of Afghan refugees in Pakistan. And Pakistan will continue to need to cope with their needs and their support.

Senator INOUYE. I'm asking these questions because I can anticipate my colleagues asking this committee.

Mr. WHITEHEAD. I understand, sir.

### WITHDRAWAL OF SOVIET FORCES

Senator INOUYE. Now, in developing the 6-year package, did you anticipate the withdrawal of Soviet forces?

Mr. WHITEHEAD. Well, the budget decision was made prior to the—the budget was submitted prior to the decision by the Soviets to withdraw. But the situation has been reconsidered and there is no change in our feeling of the necessity, absolute necessity, of continuing to support Pakistan at this level. We would, indeed, be considered pretty fickle friends of Pakistan and our commitment would be considered to be very unsupportive if this number were to be changed in the budget for the 1989 fiscal year.

Senator INOUYE. I have many, many other questions, but I will pause for a moment, and call upon my very distinguished colleague from Maryland, Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman. But I could have listened to your questions all morning. They often parallel my own.

First of all, Mr. Derwinski and you, Secretary Whitehead, I would really like to thank you for your strong and continued support of Eastern Europe and the concerns of Eastern Europe. I know of your own visits there and your own very strong feelings on the issues there, and I'm very grateful for them.

Mr. WHITEHEAD. Thank you. We're making progress there, Senator.

Senator MIKULSKI. The policy of small steps seems to be working.

Mr. WHITEHEAD. Yes, it's working.

Senator MIKULSKI. And I'm extremely supportive of it.

### EXCESS DEFENSE ARTICLES TO GREECE AND TURKEY

The other thing is I noted, General Brown, you brought up the issue of last year's continuing resolution provision on excess defense articles to Greece and Turkey. As you know, I wrote you a letter and then you very promptly responded to my correspondence. I have not had a chance to review it. I would like to defer questions on that. I'd like to review the material thoroughly, perhaps meet with you and then if we have questions, bring them up with the Secretary of State at his hearing.

But you raised a rather interesting perspective, and I would like to go into it a little bit more.

General BROWN. We have a Catch 22 situation here which I think the record brings out.

### MILITARY ASSISTANCE

Senator MIKULSKI. It looks like it. So, let me read your stuff and then come back to you.

I'd like to go to some basic questions next on a country-by-country basis. One, in terms of our overall military assistance, we keep hearing persistent reports of military officers skimming off much of our aid money: the old reports, if you will, of the good colonels versus the bad colonels. I remember on a trip that I took to south of the border, we thought we could always tell the good colonel from the bad colonel. The good colonel had a Timex watch on, and the bad colonel had a Rolex. [Laughter.]

Senator MIKULSKI. And most recently we hear about rumors—and I use that in that sense—coming out of Guatemala concerning skimming off arms profits.

Would you tell me what controls are in place to see that our money goes for its intended purpose of ammunition, uniforms, and so forth, rather than Rolexes and Mercedes and a life of privilege off of what was meant to enhance our security interest in the region?

General BROWN. To address the controls in light of potential corruption, we are always concerned about that, especially in certain countries. The best control we have is through the utilization of MAP funds, Senator, because when we utilize those funds, we, the U.S. armed forces, are the procuring agencies for whatever is purchased in the way of equipment, for example. And so, the country is not involved in any way in that process.

It is slightly different in the case of credit funds. In those cases where a country would elect to go with what we call a direct commercial procurement, in that particular case, we give the contract a review prior to allocating credit funds against that contract. But I must say that review of that contract would not necessarily reveal a kickback that was happening under the table. I cannot sit here and say that we have an air-tight system in that regard.

So, there is another part to this also. Some countries are not able to do direct commercial procurements because they don't have the sophisticated structure there that is needed to do that. So, in those cases, we use the MAP funds and allocate them when we can to those countries to not only in concern about corruption. I'm not saying there is corruption there, but we don't want to increase the probability. And the other factor, of course, is their sophistication in that process.

Senator MIKULSKI. Mr. Secretary, you have very fine ambassadors on the ground in these countries. They know what is going on as well as our own intelligence and others do. What would be your comments to my question?

Mr. WHITEHEAD. Number one, very little cash under the security assistance program goes to these countries. We pay their bills, but we don't give them the cash.

Senator MIKULSKI. How does this work then? Do they then take what we buy for them and then they just turn around and sell it?

Mr. WHITEHEAD. We can't ever guarantee that—there is no way to have an enforcement system that can prevent graft or private profiteering on the part of officials or citizens of the recipient country because there are so many ways to do that. But we police it as best we can and our general feeling of it is that it is very tight and that while there may be occasional cases of people profiting from graft or even from petty theft, that generally speaking the situation is a good one.

I point out to you the importance of the fact that most of the money does not go to them. Most of the money is used to purchase on their behalf military equipment from U.S. military suppliers. And so, the funds don't flow to the country involved. We pay the bills for them to purchase military equipment from our defense suppliers. That is where most of the money goes.

Now, if a colonel in the army sells a jeep on the second-hand market and keeps the proceeds, it is hard for us to police that. And in our economic aid, not the subject before your committee, but also an important area of potential graft, we have inspectors in AID that constantly observe and audit these expenditures. So, as best we can, we try to prevent the kind fraud that you worry about.

## CORRUPTION IN OUR FOREIGN AID PROGRAM

Senator MIKULSKI. Well, I'm just generally worried about corruption in our foreign aid program. I'm not talking about the petty theft. I'm talking about where it occurs at high levels and is sanctioned and is almost an integral part of what is going on in a given country. That, Mr. Secretary, as you know, is one of the aspects or issues that really dampens the American people's support for foreign aid.

Mr. WHITEHEAD. Absolutely.

Senator MIKULSKI. And I cannot stress more rigorously the need to improve our controls—whether it's AID, whether it's foreign aid, whether it's selling care packages. This issue must really be addressed. If you talk to the folks out there, they truly believe that for every dollar we spend there is some colonel somewhere who might pocket it or high level government official who is profiteering. And now, of course, as the chairman has indicated, this Panamanian situation only reinforces that view. It seems every time a dictator falls, he receives a substantial amount of foreign aid, whether his name is Marcos or Noriega. The tax payers get the impression that they skimmed it off and we made a lot of people rich, and then they get more hostile to foreign aid. I have found people are not hostile to feeding the hungry and caring for the sick and those kinds of things.

### AUDITING OF MAP PROGRAMS

Who in the Pentagon audits these MAP programs? And how frequently are they audited?

General BROWN. We are audited frequently by the General Accounting Office and the Department of Defense Inspector General. In fact, at any given time there may be one or more audits ongoing. We are objects of a great deal of scrutiny.

If I may, in regard to someone trying to resell this equipment, in every contractual agreement that we enter into with a country, there is a clause in there that says that they cannot resell that equipment without the specific permission of the State Department. And we have numerous sources out there that are keyed to watch those types of things. And I must say in the almost 5 years now that I've been in this business, there has been no significant indications of any wholesale operations like that. In the case of the Philippines, we stopped them from any direct commercial procurements even before the Marcos regime fell because of indications of corruption. In the case of Panama, we do not allow direct commercial procurements with that country either. And I might add, on any direct commercial procurements, it is our policy that we do not allow more than $50,000 in agents' fees no matter the size of the contract, and we look at that very closely each time a contract comes across our desk.

Mr. DERWINSKI. Senator, may I make an observation? By coincidence, I was in Guatemala 1 month ago. And I was there specifically with our delegation to an interparliamentary meeting. While we were there, we had a thorough briefing from our ambassador who is an unusually energetic, detail-minded officer who also had extensive bilateral contacts with the government.

The point that came across from our ambassador to his staff and from the president of the country was that at this point in Guatemala, the military was especially supportive of their fledgling democracy. In fact, just a few weeks ago there was I guess you would call it an unauthorized movement by a couple military units.

Senator MIKULSKI. Soldiers from the mountains.

Mr. DERWINSKI. And the defense minister was given highest grades for putting that down immediately. And we were told by our people that at this point the defense minister is a conscientious, hardworking, dedicated officer, dedicated to keeping the democratic process alive. And I'd be glad to get back to the embassy and get you much more information.

Senator MIKULSKI. It's not only that.

Mr. Chairman, I just have one other area. I'd like to ask a broader policy question, if I may, and return to your questioning.

Senator INOUYE. It's all yours.

### FMS PROGRAM

Senator MIKULSKI. This is on the FMS program and all of our moves and your request. Where are we now? Is this a loan program that is on budget, or is this a grant program?

Mr. WHITEHEAD. As the total dollars have come down over the last 4 years sharply, we suffer from that because our friends and allies around the world cannot keep their armed forces as strong as they could before. It, therefore, improves the quality of what we can give them if we can provide FMS aid in the form of grants and not in the form of loans.

Many of the recipients are developing countries who are head over heels in debt, and when we give them aid in the form of loans, we simply add to the burdens of their debt and make the problem more difficult. Many of them will never pay it back anyhow.

Senator MIKULSKI. I'm not arguing. I'm just trying to understand its status. FMS is now a grant program.

Mr. WHITEHEAD. FMS is now a grant program.

Senator MIKULSKI. And we won't go through the exercise of giving the loan and then forgiving it.

Mr. WHITEHEAD. Well, we haven't under the law been able to forgive any FMS loans. In the CR this year there was a provision which allows now these countries for the first time to refund their FMS debt that was incurred historically in earlier years. They can pay that lower interest rates and provide U.S. guarantees for those loans. That is the first time that refunding was permitted. But there is no authority under the law to forgive any of the FMS debt. This makes it difficult for these countries to continue to operate because the amounts for some of them are large.

Senator MIKULSKI. Mr. Chairman, why don't we return to your questions?

### ADDITIONAL HUMANITARIAN ASSISTANCE TO AFGHANISTAN

Senator INOUYE. Thank you.

Mr. Secretary, now that the Soviets are leaving Afghanistan, is there any need for additional humanitarian assistance to the victims of the conflict there?

Mr. WHITEHEAD. Yes, sir. We believe there is. This is not fully provided for in this budget because this is a new need. And the Department, along with other agencies of Government, is actively looking at the situation to determine just what the nature of the need inside Afghanistan will be.

There is provided in several places in the administration's budget assistance for the people of Afghanistan. In this budget there is $22.5 million for economic assistance, and there's another $22.5 million in aid funds, a total of $45 million of aid to Afghanistan to be used inside Afghanistan for humanitarian needs.

Now that 5 million refugees will be returning to Afghanistan from Pakistan and Iran, it is questionable as to whether that $45 million is adequate to do the job. The United Nations High Commissioner for Refugees is basically the organization responsible for this problem, and they with our people and people from other countries are studying this problem to see what needs to be done to assist those refugees to return. Many of their homes have been destroyed. Much of the infrastructure of the country has been destroyed.

And so, therefore, a subject which will be before you I'm sure in one way or another over the months ahead is going to be what is the responsibility of the United States toward a restoration of Afghanistan. What is our national interest in the country? Both political considerations and humanitarian considerations pertain here. What responsibility falls on the Soviet Union to help to restore Afghanistan to the position that it was before? And will they accept any responsibility for the devastation that their armies have caused? These are subjects which will now be very much on the agenda. And we're only beginning to look at them.

### STINGERS

Senator INOUYE. Have we cut off Stinger supplies to the mujahidin?

Mr. WHITEHEAD. I can't answer that question, Senator. I'm not sure. We could supply you with the answer. Military assistance up until May 15 was continuing to flow to the mujahidin, and as you know, we have reserved the right to continue that military assistance to the extent that Soviets continue their military assistance to the Najibullah army.

Senator INOUYE. Anyone who has followed the debates last year would recall that the Stingers took up much time and should indicate some concern on the part of my colleagues.

Are you able to account for all the——

Mr. WHITEHEAD. If I could just comment. As you know, I'm sure, the fact that mujahidin had available to them Stingers during the last 2 years of the war was a very major factor in their ability to defeat the Soviet military advances. And if there was any one thing responsible for the Soviets quitting, I believe the Stingers deserve the credit.

Senator INOUYE. Are you able to account for all of the Stingers supplied to mujahidin? We have been advised that there are a lot of them missing.

Mr. WHITEHEAD. We work on that. It is very difficult.

Senator INOUYE. How many are missing?

Mr. WHITEHEAD. I don't know.

Senator INOUYE. Could you supply us with that?

Mr. WHITEHEAD. Yes, we certainly can, to the extent that we know. Maybe the general can add to this.

General BROWN. No, sir; I cannot.

Mr. WHITEHEAD. As you know, the mujahidin forces are very loosely organized and not centrally controlled so that Stingers that have gone into Afghanistan are difficult to trace and difficult to follow.

Senator INOUYE. Would you also in your response tell us how you believe they were lost?

Mr. WHITEHEAD. Yes.

Senator INOUYE. Because we have heard reports that they were sold to Iranian troops.

Mr. WHITEHEAD. We will report to you what we know on that subject.

[The information follows:]

[CLERK'S NOTE: These questions concern intelligence matters, which as a matter of policy, the State Department is not authorized to respond, except to appropriate intelligence oversight committees. The administration has provided the requested information to those committees.]

## PREPARED STATEMENT OF SENATOR D'AMATO

Senator INOUYE. I'll start my questioning now. I noticed the man of the hour here.

Senator D'AMATO. Well, Mr. Chairman, at least you were more gracious than one of my colleagues who said they saw me more than Spuds McKenzie.

Senator INOUYE. You're better looking than Spuds. [Laughter.]

Senator D'AMATO. That's open to debate.

Mr. Chairman, it's always good to see you and your friend and distinguished public servant, Secretary Whitehead. And I would like to submit my statement for the record as read in its entirety.

[The statement follows:]

## PREPARED STATEMENT OF HON. ALFONSE D'AMATO

### U.S. SENATOR FROM NEW YORK

Mr. Chairman, our overall military assistance program, including the Military Assistance Program, Foreign Military Credit Sales, the Peacekeeping Operations, the International Military Education and Training Program, the Guarantee Reserve Fund, and the Special Defense Acquisition Fund, plays an essential role in our foreign policy. The administration has requested $5.62 billion for these purposes for fiscal year 1989, an increase from $5.32 billion appropriated for the current fiscal year.

This year, the administration is proposing to provide all military assistance in the form of grants. I support this effort to improve the quality of our military assistance without adding to an increasingly unmanageable debt service burdens of our allies.

The Military Assistance Program [MAP], which traditionally is all grant, helps our allies by financing the purchase of U.S. defense goods. These nations often have serious defense needs, but limited resources to expend for defense. In addition, it enhances our foreign policy by aiding allies who are combating aggression, such as El Salvador, promoting regional stability, such as Zaire, or providing cooperative security, such as Portugal. The administration has requested $467 million for this particular program, a decrease from $700 million allowed for this fiscal year.

The decrease in MAP will be made up in the increase of forgiven loans under the Foreign Military Sales Financing Program. In the past, this program allowed friendly nations with fiscal difficulties to purchase U.S. defense goods using U.S. loans. The FMS Program enables these nations to share the burden of U.S. security. The administration has requested $4.46 billion in forgiven loans for this program.

In addition to these programs, the Peacekeeping Operations, the International Military Education and Training Program, and the Special Defense Acquisition Fund also assist our allies in meeting specific defense needs.

I must state, however, that there are, in my view, problems with certain specific areas of our military aid program. The Undersecretary emphasizes in his testimony the importance of our military assistance for regional security. In certain cases, however, regional security seems to be sacrificed for supposed, short-term national interests. The large requested increase for military aid to Turkey may help secure our base rights, but it may negatively affect the regional security of our Southern Flank of NATO.

Nor is the long-term national interest of the United States served by arms sales to certain Arab nations. The Iranian threat is real and should be checked, but not in a way that will alter the military balance between the Arab nations and Israel. We must take better care to ensure that arms sales to Saudi Arabia or other nations still technically at war with Israel will not, at the very least, alter the fragile balance that currently exists.

The military assistance programs have proven that they can be effective. While providing recipient nations with much needed assistance, they bolster U.S. interests and foreign policy objectives. The administration and the State Department for the most part have done a good job of using these programs. I look forward to working with you, Secretary Whitehead, as well as Mr. Derwinski and General Brown, on funding levels for these important programs as the budget process moves forward.

Thank you, Mr. Chairman.

### COUP IN GUATEMALA

Senator D'AMATO. I would just make one observation. On May 11, there was an attempted coup against a fragile civilian democracy, one that I think that probably most people never thought would have come as far as it did. Very recently I met with General Gramaho of Guatemala, the defense minister who played a major role in bringing about a transition and also a major role in putting down the coup. And I express to you, Mr. Secretary, one of his concerns and that is that the military has taken itself from power not easily, and yet it continues to feel that somehow the United States does not recognize its efforts. Now, that's more than illusory. And I think that somehow there has been a slip-up.

And I ask you, Mr. Secretary, to address yourself to that not so much as now or by reply. I'm not going to ask you for that. But I think that we've got to get down to the bottom of why, why when they are moving in this area, has the administration actually requested a decrease in military assistance, a decrease in economic assistance. It does not make sense. And we're talking about, as it relates to moneys, almost an insignificant amount. We went from $7 million which was last year's request to $5 million. Silly, a slap in the face. Here you want to encourage that process. If anything, give the democracy, give Gramaho, give his President an opportunity to say that, look—because they're under great pressure. It pays. And we're moving here in the United States and supporting. Now, they're being laughed at back at home—those who have raised it.

Now, I would hope—and I've spoken to the committee and our staffs have been working on it, and the chairman—thank God we have a chairman like Dan Inouye who is the chairman's chairman and he always has been as ranking member prior to that and now. But I would hope that we would address that, that we would raise that assistance, that you would be supportive of an effort and proceed to it both on the military and the economic side. We look to reward that kind of achievement and that kind of effort and that kind of movement. That's my request to you.

Mr. WHITEHEAD. Thank you, Senator. And you say you are not seeking a reply particularly, but I would like to make a comment.

I agree with the thrust of your remarks, and I think you make a good point. With these new democracies and particularly the three new democracies in Central America of which Guatemala is one, we have a difficult problem because the democratic civilian government has, in effect, taken the place of the former military government. We have to be careful that in our support of the new democracy that we don't downgrade or downplay the military in those countries, but we are torn, as you can see, between wanting to up-play the new civilian government and support them as fully as we can so that those countries won't return to military dictatorships, but at the same time to recognize the continued importance of the military, particularly the need for it to simply maintain order in the country itself. So, it is somewhat of a balancing act.

And I can't resist the temptation to use your example as evidence of our appeal for no earmarks. If only $5 million is earmarked for Guatemala, as has been done in the House bill which passed the House yesterday, we would not be able to give them $7 million if that were the right thing to do under the evolving circumstances in Guatemala because $5 million would have been earmarked, and there would not be any extra leftover funds to give them additional amounts. And so, it is evidence, I think, of the importance of leaving us as much freedom as you possibly can to react to circumstances as they change, particularly among those four countries of Central America where their positions do keep changing, where their governments are very fragile and their military is still a presence that is important. We need to have flexibility in allocating funds among those four countries and throughout the budget.

Senator D'AMATO. Well, thank you, Mr. Secretary. Again, I would hope in this particular case that we would move that mark up. I understand your thoughts as it relates to marking, but to give some recognition to both the military, who has contributed to the role of democracy, and to the military side as well, I'm thinking about an additional $5 million in each category. That would be well-received and I would hope would pay tremendous dividends. There are 11 million people in Guatemala. And if we can get some areas that encourage the working of the military and the civilian and don't have to get into an arms assistance program and a civil war later on, then that's going to save us, God knows, countless lives and hundreds of millions, if not billions, of dollars in the future. So, I mention it and I would hope that you would examine that particular case.

Mr. WHITEHEAD. I would just point out to you, which you must be aware of, that in addition to the $5 million of FMS assistance, we are providing Guatemala with $80 million of economic assistance, of ESF funds. So, the $5 million that you referred to is not our only aid to that country, but it is our only direct aid to their military forces and we will consider that.

Senator D'AMATO. I think it is important to give some credibility to one of the military people who has truly worked to bring about democratic reforms, and we don't want to appear to be undercutting him. He raised this with me as a concern, and I'm certain that he has mentioned it to yourselves. And I think it is a legitimate concern.

Thank you.

Senator INOUYE. I'd like to advise my friend that I'm prepared to join in increasing the MAP to $7 million.

Senator D'AMATO. That would be wonderful. I think that would be very appropriate.

Senator INOUYE. Do you want to earmark that? [Laughter.]

Mr. WHITEHEAD. If you earmark it, Senator, you'd probably not only put a floor under it, but you'd probably also put a ceiling on it. [Laughter.]

General BROWN. I couldn't agree with you more that it makes no sense. I think the Guatemalan armed forces have done a tremendous job against the insurgency down there without our help. But they certainly do need it now.

It makes no sense to zero out the Andean region which we had to do and to zero out the Caribbean region, which we had to do also. The $5 million we requested in 1989 represents the best balance that we could come up with so we could get back into the Andean and Caribbean regions.

But I can tell you from what I know of Guatemala, they could use $10 million if they had it. But we're trying to balance this allocation.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator INOUYE. Thank you.

### FMS DEBT RESTRUCTURING

Mr. Secretary, I'd like to thank your agency, the State Department, for the very helpful role you've played in formulating the interim rules in the FMS debt restructuring. I will not ask any questions in this area because I realize you are at a very sensitive stage in your discussions with Treasury. But I hope in your discussions with Treasury you will emphasize the intent of the Congress, and if you could keep us fully appraised of what transpires, we would appreciate that.

Mr. WHITEHEAD. Thank you. You identify an important problem, Senator. As I have traveled around the world in the last several months since the preliminary Treasury regulations were introduced, I heard quite a few complaints about them from the countries that are involved, important countries to our interest, and a feeling on the part of these countries that what we represented to them as a benefit turns out somehow to be handicap. So, the Treasury is currently reviewing the various suggestions that have come in from these countries and their bankers. And we hope that the Treasury will take note of some of the interpretations that they have placed on the legislation and will permit the countries to proceed with the kind of refunding that you had in mind when you passed the legislation.

### BASE RIGHT NEGOTIATIONS

Senator INOUYE. There is another area of major interest on the part of the committee, and I will not ask specific questions because you are presently involved in negotiations and I believe at a very sensitive stage. But this is on base rights negotiations for Subic and for Clark Air Force Base in the Philippines. I don't want to add to the confusion that appears in the press today, but would you keep us apprised as to what is happening out there in memo form? If it is classified, will you so note it, sir?

Mr. WHITEHEAD. We certainly will do that, sir.

### U.S. MILITARY ASSISTANCE FOR EL SALVADOR

Senator INOUYE. I would like to now touch briefly upon El Salvador. Aid to El Salvador in fiscal year 1988 was $608 million. That's 105 percent of El Salvador's $582 million contribution to its own budget. Even excluding the one-time earthquake relief assistance, El Salvador is approaching the record of dependence on U.S. aid held by South Vietnam at the height of the Vietnam war. In other words, we are providing over half of El Salvador's budget.

At what point do you estimate El Salvador will have reached a saturation point for U.S. military assistance?

Mr. WHITEHEAD. Sometimes there seems to be in many countries no saturation point for their ability to absorb U.S. aid. We certainly had hoped that El Salvador's new-found independence would have permitted their country to develop and prosper to a greater extent than has been possible to date. And we continue to hope that success will result in the need for less U.S. Government financial support in the future.

But El Salvador has been beset by two very serious problems. One is the continued insurgency and opposition which they continue to fight a war within their own country which not only costs heavily on their government's budget, but also disrupts their economy to the point that it cannot come back. It's largely an agricultural economy. And the fields cannot be sowed or the harvests reaped while the opposition continues to flourish.

And the second problem is the problem of the earthquakes. Unfortunately, the countries with the worst problems seem to attract the natural disasters. And the earthquake caused very heavy damage in their capital city, and damage from which they still have not recovered and requires a good deal of rebuilding which is only beginning to get under way.

So, this aid continues to be necessary even though, as you point out, the amounts are very outsized in relation to the size of their economy or the size of their population.

General BROWN. Mr. Chairman, you mentioned the saturation in military assistance. I'd like to point out that just recently an effort was completed down there. At the request of their government we participated with them in the updating and revision of the military part of their national plan. When we participated in that, we also did an assessment of what the war was going to cost. We were just briefed on this last week. I recall the figure for just sustainment alone of the U.S. equipment for the future, beginning this next fiscal year, was estimated at $97 million. If you'll notice, they only received $85 million this year, and we're requesting $95 million next year. So, what that means, if those figures are reasonably accurate, and we think they are, is that there will be no modernization, or replacement of combat losses, if we continue to fund them at the level that we requested in 1989. I just thought I would point that out.

### DUARTE POSITION IN EL SALVADOR

Senator INOUYE. Mr. Secretary, I look back to Iran and Vietnam and I'm always haunted by the possibility that we may be destabilizing El Salvador with too much aid. With all the assistance we have provided El Salvador, I notice that the Christian Democrats, the party of Jose Napoleon Duarte, is falling apart now. Do we need more aid to bring them together? What is happening?

Mr. WHITEHEAD. Because of the difficulty that I described, his political position is weaker than it has been in the past. But I don't think that's the time for us to run away from the problem. I think it is the time to continue to show him our support. He has been a strong political figure and a strong advocate of democracy, and he has been beset with many problems. And I think our continued support of his presidency is essential.

### DRUGS IN HONDURAS

Senator INOUYE. If I may, I would like to briefly turn to Honduras and because of our great interest in illegal drugs. Last April, the government of Honduras agreed to hand over the suspected drug trafficker, Juan Ramon Matta Ballesteros to the United Stats for prosecution. This person Matta Ballesteros is a major figure in the narcotics trade of Latin America and escaped the Colombian jail in January of 1986 and was wanted in our country for all sorts of drug-related charges. However, his release into the custody of U.S. marshals sparked widespread riots in the streets of the Honduran capital.

How much anti-Americanism is due to heavy-handed U.S. treatment of the Honduran constitutional process? And why is Honduras not more of a friend given the large amount that we have been providing them?

Mr. WHITEHEAD. I'm not familiar with the specifics of the drug trafficker case, although I remember the release that you refer to.

I believe our relationships with Honduras are friendly on both sides. They certainly have been cooperative with us on our assistance to the contras and Nicaragua. They have given haven to the contras and still do in spite of the fact that it creates considerable problems for their country. And while relations are sometimes tense, particularly over that issue and particularly in the border, I believe we have supported Honduras strongly and they have supported the United States to the extent of their ability to do so. We consider them a very strong friend in Central America.

### SOPHISTICATED WEAPONRY

Senator INOUYE. A general question and not specific in any case. As noted by all three of you, we have had to cut down military support for many countries. And yet, I seem to sense that we are still providing these recipient countries rather sophisticated weaponry, very expensive ones. Won't the dollar be spread better and utilized more effectively if we provided less sophisticated and less expensive weaponry?

General BROWN. Mr. Chairman, are you speaking within the context of Latin America? The only relatively sophisticated weaponry to the Central American region that has gone in there has been the 12 F-5's aircraft that were sold to Honduras recently. And if you look at them in the context of our sophistication, we are phasing the F-5 aircraft out of the U.S. inventory at this time. Beyond that, we have sold some F-16 aircraft to Venezuela.

But the majority of the equipment that we have placed in the Central American region has all been for low-intensity type conflicts in the form of communications, mobility and small arms. The largest weapons we have put in there are artillery pieces, and that was just a very few. So, I think by and large I can safely say that we are not providing any sophistication to those countries.

### INCREASES FOR GREECE AND TURKEY

Senator INOUYE. Your budget proposes increases for both Greece and Turkey. However, at the same time last year, we approved legislation to establish the post of a special envoy to represent the United States in direct negotiations with the parties in dispute. Does this suggest that the administration does not consider this special ambassador to be important?

Mr. WHITEHEAD. Is this the Cyprus special ambassador?

Senator INOUYE. Yes.

Mr. WHITEHEAD. No. We do consider that that special ambassador has an important role. The continued issue in Cyprus is one that needs to be resolved. And we are very pleased at the recent meeting between President Ozal of Turkey and Mr. Papandreou of Greece as an indication that these two countries which have been bitter enemies for many years may at this stage of their existence be finding a better way of living with each other as neighbors, and that that may lead to a solution to the situation in Cyprus. This Greece/Turkey/Cyprus problem seems to be showing signs of improvement. And our special envoy hopefully will be able to play a role in that.

Senator INOUYE. Has a special envoy been appointed or nominated?

Mr. DERWINSKI. Wilkinson is, in effect, the acting special envoy as part of his other duties. He's the Deputy for Europe.

Senator INOUYE. The legislation called for a report by the President on or before the first of June. We have no envoy. Are we going to get a report?

Mr. DERWINSKI. Our Deputy Assistant Secretary for Europe, Jim Wilkinson, is de facto the special envoy. By coincidence, June 1 is the day when the new president of Cyprus will be in New York at the special disarmament session at the U.N. And in addition, there have been, my understanding is, tentative dates selected for him to call on President Reagan. In the meantime, our efforts at this point—and I also should mention, Senator, we have a new ambassador in Cyprus. And special efforts are being made now to bring about a meeting between President Vasileo and Jourdenkash, the Turkish Cypriot leader. We are hopeful that could be developed. That would be a major diplomatic breakthrough if those two gentleman could meet and start to solve these problems in a face-to-face manner. At least the potential is there.

Mr. WHITEHEAD. I'm glad you reminded us, Senator, of the June 1 impending date. We'll check into that.

While you mention Turkey, I can't help but put in a special word as to Turkey's importance and the importance of Turkey's military forces to the United States. Of all the other countries of NATO, Turkey has the largest army. Yet, the per capita income of Turkey is as low as that of any other member of NATO. The Turkish fighting forces are a very tough army and a very important army, particularly with the continued unrest in that part of the world. And this would be no time to reduce our commitment to Turkey in view of their importance in NATO, in view of the importance of their army. It is particularly important that Turkey not be overlooked in any way by the Senate as it considers this legislation.

### DEFENSE AND ECONOMIC COOPERATION AGREEMENT

Senator INOUYE. I can assure you that this committee is fully supportive of your conclusion, and we're aware of the long border that they have with the Soviets, the longest of any country.

I understand that the defense and economic cooperation agreement is due to be ratified by the Turkish parliament. Why is that agreement just for 2 years?

Mr. WHITEHEAD. I'm sorry. I thought it was a 5-year agreement.

Senator INOUYE. It's just to 1990, isn't it?

Mr. DERWINSKI. That's because they delayed ratification. It has been negotiated over 2 years ago. With all their election procedures and some turmoil in parliament and political debate, they just now——

Senator INOUYE. Is it going to be ratified this year?

Mr. DERWINSKI. I believe they have ratified it. There was a delay and that's why. The delay came well into the timeframe after it had been negotiated.

Senator INOUYE. So, are we going to go to the table in about 6 months?

Mr. DERWINSKI. I guess the preliminary contact will have to be made. I should add, by the way, that I think it is accurate to say our negotiations with Greece are moving at a reasonably good pace. No breakthrough or solution yet, but no impasse. So, we're hoping for a successful conclusion to the negotiations with Greece. And logically, the move could go on then to the new negotiations with Turkey. If their own, as they name it, spirit of dabos continues and Mr. Papandreou and Ozal manage to continue their very positive communications, that whole area might turn out to be a bright spot rather than a chronic problem.

## F-16 REFUELING IN TURKEY

Senator INOUYE. Because of the sensitivity of the ongoing discussions that we're having with Turkey on the refueling of F–16's, I will be submitting these questions and if you feel that they should be classified, please classify them accordingly. But several Senators have asked this subcommittee questions relating to that type of relationship we're having with Turkey.

Mr. WHITEHEAD. We'll get you those answers.

May I make a comment about the base agreement countries generally?

Senator INOUYE. Please do.

Mr. WHITEHEAD. We observe a somewhat changed, more negative attitude on the part of countries generally where we have military bases. It has been evidenced particularly in the negotiations we've had with Spain, who has determined that we should no longer have available to us the air force base near Madrid. But in the negotiations that we have at a less advanced stage with Portugal, with Greece and Turkey and with the Philippines, all extremely important base countries, we find a changed attitude, a more negative attitude toward the continuation of American bases, less of a feeling that they are an asset to the country and more of a feeling that they are a liability to the country. This is a disturbing development, disturbing situation to us if we think broadly about it.

And I would just say that as it affects the military appropriations and security assistance funds, it is not a very good time to be reducing those funds when this attitude seems to be less positive about the importance to a country of having a U.S. military base in their country.

## PAKISTANI MERCENARIES IN SAUDI ARABIA

Senator INOUYE. We have received reports that Egyptian troops may replace the 10,000 Pakistanis who are now serving as mercenaries in Saudi Arabia. Is there any validity to these reports?

Mr. WHITEHEAD. I don't know. I don't believe there is.

Mr. DERWINSKI. We have not seen any what I would call an authorized or practical report to that effect. We have seen the reports that the Pakistanis—I think the number involved was 7,000 would leave Saudi Arabia, but we have not heard or not been aware of any replacement.

Senator INOUYE. Well, the report we have received suggests that the Saudis are prepared to pay the Egyptians $1.8 million for the use of Egyptian troops on their soil. And I just want some clarification if that is correct.

General BROWN. I think there has been some speculation about that, but based on the reports that I have seen, sir, there is no indication that there has been any serious discussions even about Egyptian troops going in there. And I believe we'll find that over the recent times the Pakistani forces there have been phased down significantly also.

Senator INOUYE. How much were the Pakistanis being paid, and if they leave, how much will they be losing? I ask this because we may be asked to make that up.

General BROWN. Sir, I'm sorry. I have no idea, nor have I ever seen any figures to that effect although there may be some available.

Senator INOUYE. Are the Egyptians providing troops to other Gulf nations?

General BROWN. To my knowledge, they are not other than possibly a few officers. They are not providing any military units outside their borders, to my knowledge.

Senator INOUYE. Are we encouraging Egypt to do so?

General BROWN. No, sir.

## IMET FUNDING

Senator INOUYE. Your congressional justification document indicates that you have allocated IMET funds for this fiscal year for such countries as Austria, Finland, Iceland, Yugoslavia and Luxembourg. And I don't suppose we could suggest that these are underdeveloped countries.

What is your justification for providing IMET funding to these developed countries with very professional military establishments?

General BROWN. Mr. Chairman, let me just point out the amount that goes to those countries that are considered to be higher income countries is very small. It amounts to $665,000, or just slightly more than 1 percent of the budget.

Senator INOUYE. I realize the amount is small, but these are the small, little things that cause this subcommittee all kinds of problems because we have to explain why Austria needs foreign aid and why Luxembourg needs foreign aid, and Iceland needs foreign aid.

General BROWN. Let me just say that we do this primarily for two reasons: first, to keep a good military-to-military relationship with these countries and to afford them the opportunity to come here and get our military education whereas they don't have that capability within their country and they would have to go outside their country to do it. And if they did so, we would prefer that they come here so that we can maintain a close relationship with them.

Senator INOUYE. Is there any reciprocal program where our military personnel could go to their countries to learn a few things?

General BROWN. We have those types of programs. I would have to provide you more detail.

[The information follows:]

### RECIPROCAL PROGRAMS

There are two such programs authorized under Chapter 5, Sec. 544, of the FAA and Chapter 2C, Sec. 30A, of the AECA. The former authorizes an exchange of students each fiscal year on a one-for-one, without charge, reciprocal basis, between U.S. professional military education institutions, i.e., the Command and General Staff Colleges and the War Colleges of the Military Departments and comparable institutions of foreign countries and international organizations. The latter concerns a reciprocal exchange involving unit training and related support without charge, but requires our friends to reimburse the United States for the full cost of the U.S. training and support should they not provide the United States with comparable training and support.

### TROOP SUBSIDIZATION

Senator INOUYE. Do they subsidize our troops on that?

General BROWN. Yes, sir.

Senator INOUYE. Do you believe this is ample justification?

Mr. WHITEHEAD. I believe that the IMET programs are the—if you have to pick out one single program, they are the most important military assistance program we have.

Senator INOUYE. If this is going to be a military-to-military type relationship, why don't we put this little item in DOD? Most Americans look at foreign assistance and they see starving children with distended stomachs, not wealthy Austrians who have better trade relations with the United States. And we have deficits with them.

Mr. WHITEHEAD. I think it isn't as if we are handing Austria dollars. We are saying to the Austrian military forces we'd like to have come to the United States some of your middle level officers who will be the generals of the future and take a 6-month course in military tactics or whatever the course might be. And we'll provide that course free for you. If we charge them for it, they probably won't come. But it is to our advantage to have them take that course and to go back with the kinds of close relationships that hopefully are established during the process of that course with our military people. The Soviets are doing this with the countries that they can convince to come and take courses in the Soviet Union, and we are doing it with other countries.

Obviously, if we could get them to pay for the courses, it would be better than if we have to give it to them free. But suspect these countries are not eager to come here on the basis where they have to pay.

Senator INOUYE. You mentioned Spain as one of those countries which are having problems. But I notice we are setting aside about $3 million of IMET funds for Spain.

Mr. WHITEHEAD. That's the only remaining assistance program we have with Spain.

Senator INOUYE. Do you think this is justified?

Mr. WHITEHEAD. Yes, sir.

Mr. DERWINSKI. Senator, if I may a second point made by Secretary Whitehead. Very valuable to us is the benefit of the IMET program where I've seen a dramatically is some of the small countries in Africa and Asia, Latin America. Guinea, for example, after Sete Toure passed away, the government reorientated westward. We went in with a very small program, three officers, the original IMET group after 20 years of absence of that program. By coincidence, 3 or 4 months later, one of those officers became the foreign minister. That happened to be an unusually lucky relationship. But these are key people and I found in smaller countries it's a relationship which is prized. They come back full of respect and admiration for the United States.

I think the IMET program is a combination of military education and diplomatic goodwill that is just outstanding. Frankly, if I had one area—if I had total authority to increase anything, it would be IMET.

## SUBMITTED QUESTIONS

Senator INOUYE. Before we recess these proceedings, I would like to extend to you the regrets of Senator Kasten. He wanted to be here very much, but he had a few other hearings that he had to attend. And he has requested that he be permitted to submit questions. Other Senators have also made that request. So, we will be submitting these questions for your consideration.

[The following questions were not asked at the hearing but were submitted for response for the record:]

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### EL SALVADOR

SENATOR INOUYE: On April 16 this Subcommittee was notified that DSAA intends to authorize the preparation of a Foreign Military Sales offer to the country of El Salvador for 3,360 Light Anti-Tank Weapons (LAW). The total cost of the sale is placed at $1,280,261. What is the armor threat to El Salvador which necessitates the sale of 3,360 anti-tank weapons?

MR. WHITEHEAD: The Light Anti-tank Weapon (LAW) is being provided to the armed forces of El Salvador for fire suppression purposes and for use against fortified positions. No armor threat is foreseen.

### PAKISTAN AND INDIA: ADMINISTRATION COMMITMENTS

SENATOR INOUYE: During his trip to South Asia in April, Secretary of Defense announced an Administration decision to supply high-technology assistance to the Indian Air Force and confirmed its intention to sell $343 million in F-16 aircraft and Sparrow and Sidewinder missiles to neighboring Pakistan.

How will India and Pakistan finance their purchases of this equipment?

MR. WHITEHEAD: For more than a year, the United States has been cooperating with India in the development of an indigenous Light Combat Aircraft (LCA). As part of that ongoing program, Secretary Carlucci announced during his visit to New Delhi the U.S. decision to release the ring laser gyro guidance system for incorporation into the LCA. As with the other U.S. products and technologies procured by India in its efforts to modernize its military establishment, the ring laser gyro will be purchased on a commercial basis from India's defense budget.

Pakistan plans to use Foreign Military Sales credits for the purchase of the F-16 aircraft and Sparrow and Sidewinder missiles.

### GREECE

SENATOR INOUYE: I understand that Greece has over $700 million in uncommitted funds available.

Have these funds been programmed?

MR. WHITEHEAD: A major portion of these funds are programmed to be applied to the frigate program. The remainder will most likely be applied to purchase of M48A5 tanks and to support of equipment provided to Greece under the Southern Region Amendment, such as the F-4 C/D aircraft.

### GREECE: NATO

SENATOR INOUYE: What is the ratio of NATO infrastructure funds allocated to Greece and Turkey over the last four years?

MR. WHITEHEAD: Infrastructure funds are allocated according to the military requirements of each ally as determined by the

SACEUP, rather than by any particular ratio. During the past several years Greece has received approximately eight percent of the infrastructure funds allocated, and Turkey has received approximately fourteen percent.

## TURKEY

SENATOR INOUYE: I understand that Turkish officials have turned down a request by our Government to send tanker aircraft to Turkey to provide and in-flight refueling capability for our F-16's based at Incirlik. The aircraft would extend the 1,000km range of our F-16's to cover portions of Soviet territory.

Has this matter been resolved since it was first raised late last year? If not, how is it being handled by the two governments?

Has this issue been taken up in the context of base-rights negotiations?

Is NATO command involved in the discussions over F-16 refueling rights?

On what grounds has Turkey objected to the U.S. request to have refueling aircraft based at Incirlik?

Has the U.S. responded to the Turkish request for its own tanker aircraft? If so, what was the response?

MR. WHITEHEAD: After a thorough search of its files, and contacts with officials in other government departments, the Department of State has been unable to locate any information relating to this issue. While our preliminary contacts with the Department of Defense also have been fruitless, it is possible that further inquiries at Defense might provide information relevant to these questions.

SENATOR INOUYE: I understand that the Government of Turkey has indicated its desire to purchase 40 F-4 aircraft from the United States.

Has Turkey begun the process of acquiring 40 F-4 aircraft from the United States?

MR. WHITEHEAD: The government of Turkey received 40 F-4E aircraft in 1987, under the provisions of the Southern Region Amendment (SRA). In future years, it is possible that additional such aircraft may be transferred to Turkey under the provisions of this legislation.

## TURKEY: SECURITY ASSISTANCE AID REQUEST

SENATOR INOUYE: This year the Administration is requesting $550 million in FMS credits, $3.5 million in IMET, $70 million in ESF and $750 thousand in international narcotics control funds for Turkey in fiscal year 1989. What additional security assistance funding does Turkey receive from NATO sources to which the United States is a contributor?

MR. WHITEHEAD: Turkey, in similar fashion to other NATO allies, receives NATO infrastructure support for common-use NATO projects.

SENATOR INOUYE: You indicate in your Congressional Presentation that a funding level of $624.25 million "continues to fall far short of the funding level needed to bring the Turkish military forces in line with NATO's standards, for the full performance of their assigned roles and missions."

What roles and missions is Turkey now unable to fulfill?

Has the Department of Defense and NATO considered that these roles and missions need to be redefined in light of current funding constraints?

Have you or other Administration officials prepared an analysis of Turkey's military capability under alternative funding scenarios?

Have you or other Administration officials then matched these funding levels against the likelihood that its armed forces will be able to meet both current and projected threats to its security and that of the Alliance?

MR. WHITEHEAD: As we stated in our Congressional Presentation Document (CPD), "Levels (of U.S. assistance) are currently insufficient to fully meet modernization requirements" for the Turkish Armed Forces. In the past, NATO defense analysts have estimated that the level of funding required to fulfill Turkey's military modernization requirements would reach a total of $1 billion or more annually. In the absence of funding at or near this level, U.S. security assistance to Turkey can only hope to achieve necessary force modernization in a few of the many areas in which Turkish forces require upgrading of equipment and weaponry. As the CPD notes, Turkey itself, although the poorest country in NATO, is also taking further steps to fund internally its defense modernization needs, such as through the creation of a new Defense Industrial Support Fund. For further information on the issues raised by your questions, you may wish to contact the Department of Defense.

## CONGRESSIONAL JUSTIFICATION

SENATOR INOUYE: I notice that in your policy justification for assistance to Israel you state that: "Our long-standing commitment is based on historical and cultural ties, as well as the U.S. interest in securing a just and comprehensive peace between Israel and its Arab neighbors." The U.S. and Israel have formally signed consecutive defense Memoranda of Understanding which stress the strategic value of Israel to the U.S.

Why, then, does the congressional presentation for security assistance fail to make even the slightest mention of Israel's strategic value?

MR. WHITEHEAD: Our long-term, substantial financial commitment to Israeli security traditionally has been based on the regional balance of power and the overriding importance of maintaining Israel's ability to defend itself against any combination of adversaries. However, we also recognize the importance of our strategic cooperation with Israel and will review the language next year with a view toward mentioning our strategic relationship as part of our justification.

SENATOR INOUYE: Are U.S. ties to our closest ally in the Middle East only "historical and cultural" as you state in your justification comment?

MR. WHITEHEAD: The brief space allowed to justify our request for security assistance precludes a complete description of all the ties we share with Israel. As you have noted, we recently signed a Memorandum of Agreement with Israel that recognizes a wide range of political, economic, and security relations between our two countries.

## ISRAEL: LAVI TERMINATION

SENATOR INOUYE: I understand that the Israelis are continuing to build several Lavi test-bed aircraft to be used in the development of electronic warfare equipment?

MR. WHITEHEAD: Yes, when Israel decided to cancel production plans for the Lavi on August 30, 1987 it was with our full understanding that work would continue on a third prototype aircraft as a test bed for research and development on the avionics system originally intended for the Lavi.

SENATOR INOUYE: Are U.S. military assistance funds being used in these projects?

MR. WHITEHEAD: Yes, U.S. FMS credits are being used to finance the Lavi prototype avionics project, and this expenditure is consistent with current U.S. law and policy, which allows Israel to spend up to $400 million in FY 88 and FY 89 in Israel on advanced fighter aircraft or other advanced weapons systems.

SENATOR INOUYE: Will the technology developed in this scaled-down Lavi program be exported?

MR. WHITEHEAD: Although the government of Israel has not informed us directly of what it will do with the technology it has developed as part of the Lavi program, we fully expect that Israel will seek to market this technology. Insofar as Lavi-developed technology is U.S. origin or otherwise subject to U.S. third-country transfer rules, Israel would be required to obtain our permission before exporting this technology.

SENATOR INOUYE: What are the final costs associated with the Lavi termination?

MR. WHITEHEAD: We are expecting a final accounting from the government of Israel at the upcoming Joint Security Assistance Planning group meeting at the end of June. Preliminary indications are that costs associated with termination of the Lavi project will remain within the Israeli estimate of $400 million. From August 30, 1987, when the government of Israel decided to cancel plans to produce the Lavi aircraft, until the end of March 1988, Israel has paid $85.1 million to U.S. contractors, both for work performed or materials provided to date and for termination liability costs. Approximately $185 million has been spent in Israel to date in costs related to terminating the Lavi.

SENATOR INOUYE: Will the Israelis be permitted to use some U.S. FMS credits to cover the estimated $400 million debt incurred by the Lavi project?

MR. WHITEHEAD: Israel is authorized to use FMS credits to finance termination costs associated with Lavi contracts that had been approved by the Defense Security Assistance Agency.

SENATOR INOUYE: Have the workers employed on the Lavi project found alternative employment?

MR. WHITEHEAD: Approximately 2900 workers in Israel lost their jobs due to the Lavi cancellation. We have asked the government of Israel to provide a status report at the upcoming JSAP meeting in June on how many Lavi workers have found alternate employment.

## ISRAEL: EMBASSY SECURITY

SENATOR INOUYE: I am concerned that the United States Embassy in Israel is in a sorry state of disrepair. There are reports that the building in Tel Aviv is a fire hazard and suffers from overcrowding and antiquated electrical, plumbing and heating systems. Most distressing, however, is the concern that the Embassy is vulnerable to terrorist attack.

What funds have been allocated to make the necessary improvements to the existing U.S. Embassy in Israel or seek alternative quarters?

MR. WHITEHEAD: The Department fully agrees that our present facility in Tel Aviv is overcrowded, presents numerous life safety problems, has antiquated electrical, plumbing and heating/ventilation systems and does not meet minimal security standards.

Tel Aviv is a high-threat post, and the current Chancery was identified for early replacement in the 1986 Inman Report. Site acquisition and design construction funds were requested in the FY 87 budget, however, funding for Tel Aviv was effectively ruled out by Congressional action. Because of this disapproval, we were obligated to request $10 million in our FY 89 budget for a major renovation of the existing Chancery.

We consider this to be only a repair job and not a satisfactory solution for security, overcrowding or all maintenance and safety issues. We have done what we can, but the serious physical security problems associated with the present Chancery cannot be overcome due to the structure's physical location/proximity to the streets. These security vulnerabilities can only be solved by purchasing an adequate site and constructing a new building.

## ISRAEL: ANTI-TACTICAL BALLISTIC MISSILE

SENATOR INOUYE: I understand that under an agreement between Israel and the United States reached in January, 1988, the U.S. will fund 80 percent of the development costs of the Arrow anti-tactical ballistic missile system with Israel funding the remainder. What is the status of Israel's ATBM program?

MR. WHITEHEAD: We are preparing to begin negotiations on arrangements to cover this joint project. The Arrow itself is in the experimental stage and test flight is not expected until late 1990.

SENATOR INOUYE: Will the United States have full access to all technological breakthroughs connected with the Israeli ATBM program and will they be available to our NATO allies?

MR. WHITEHEAD: These questions will be addressed in negotiations with the Government of Israel. It is our position that the U.S. will receive full flow back of any technology developed in the program.

## CONGRESSIONAL JUSTIFICATION

SENATOR INOUYE: In your policy justification for assistance to Egypt you state that: "The U.S. security assistance program in Egypt manifests support for the Government of Egypt, whose major

-strategic interests closely parallel those of the U.S. Egypt stands firmly behind the peace treaty with Israel and is a full partner in the Middle East peace process."

Why are Israel's contributions to the peace process and its commitment to the peace treaty with Egypt thoroughly ignored in your statement, while those of Egypt are lauded?

MR. WHITEHEAD: The section from which this quotation was drawn is an explanation of why the U.S. provides security assistance to Egypt and therefore is focussed on Egyptian policy without reference to the policies of other countries. Israel's commitment to peace with its neighbors is, of course, long-standing and well-known.

## EGYPT: ARMS PRODUCTION AND SALES

SENATOR INOUYE: Mr. Secretary, I have read reports that Egypt and Nigeria plan to sign a military pact which may include the provision of Alpha Jet aircraft to the West African nation.

What affect will this deal have on the strategic balance between Nigeria and its neighbors?

MR. WHITEHEAD: We are unaware of any plans by the Federal Government of Nigeria to acquire Alpha Jet aircraft at this time.

SENATOR INOUYE: Egypt appears to be relying increasingly on military exports as one way of financing its balance of trade deficit and improving its political ties around the world. I understand from Egyptian sources that Cairo annually invests $75 million in new plant and facilities for its defense industry, and exports about $103 million worth of military goods and equipment.

What do you see as the long-term economic consequences for Egypt in investing its scarce resources in military exports -- a highly competitive market already saturated in many key areas?

MR. WHITEHEAD: Egypt's major objectives in developing its defense industrial capabilities are to limit its foreign currency expenditures on defense and reduce its need for military aid. Meeting these goals could free up some foreign exchange resources for non-military purposes. Export sales of military equipment will aid in Egypt's efforts to offset the costs of needed military modernization but are not, in our view, a primary motivation in the development of defense industrial capacity.

## EGYPT: FOREIGN RELATIONS

SENATOR INOUYE: What has been the extent of Egyptian military assistance to Iraq during the last 24 months?

MR. WHITEHEAD: Egypt has been a major supplier of military equipment to Iraq. Most of Egypt's supply has been in the form of small arms and ammunition, but the Egyptians have also sold to the Iraqi military a number of Tucano trainer aircraft produced in Egypt under license by the Brazilian manufacturer. None of the items provided to Iraq by Egypt has been of U.S. origin.

SENATOR INOUYE: Has the Government of Egypt kept the United States informed of its military assistance to Iraq?

MR. WHITEHEAD: We maintain a regular, full exchange with the Egyptians on our mutual perspectives of events in the Gulf. Within that context, the Egyptians have been frank with us in describing the nature of their relationship with Iraq.

SENATOR INOUYE: What assurances can you give this Subcommittee that Egypt is not transferring military equipment or components of U.S. origin to Iraq?

MR. WHITEHEAD: All FMS sales of U.S. equipment to Egypt, as elsewhere, include the requirement that Egypt not transfer the equipment to a third party without the explicit, prior approval of the U.S. Government. The Government of Egypt is fully cognizant of its commitments in this regard. We have seen no evidence nor heard any allegations that Egypt has transferred any U.S.-origin military equipment to third parties in violation of this restriction.

## EGYPT: MILITARY SELF-SUFFICIENCY

SENATOR INOUYE: I understand that an Egyptian-U.S. Self-Sufficiency Task Force has been formed to explore ways in which operational readiness can be improved and Egyptian capabilities to co-assemble military items and produce sub-components can be enhanced. The group will be working to identify priorities for production and co-production.

What progress has the Egyptian-U.S. Self-Sufficiency Task Force made in its work so far?

MR. WHITEHEAD: Efforts to assist Egypt in developing its defense industrial capabilities remain in an organizational stage. A U.S. team has visited Egypt to tour facilities and discuss issues with its Egyptian counterparts and a further discussion of defense industrial cooperation was included as part of the recent Egyptian-U.S. Military Coordinating Committee meetings in Washington. The Egyptians have also established a separate office within the Ministry of Defense to facilitate cooperation with the U.S. in this effort.

SENATOR INOUYE: What U.S. Government agencies and officials are represented in this group?

MR. WHITEHEAD: The group is composed of representatives of the Office of the Secretary of Defense, the military departments, and the Defense Security Assistance Agency.

## EGYPT: RECENT M.O.U. WITH THE U.S.

SENATOR INOUYE: On March 23, the United States and Egypt signed a memorandum of understanding putting the country on the same footing for U.S. weapons contracts as Israel and NATO allies.

What types of contracts do you expect Egypt to be able to take advantage of in the months ahead?

MR. WHITEHEAD: The Memorandum of Understanding opens up to the Egyptians the opportunity to bid on U.S. military procurement contracts. The Egyptians will now need to determine the fields in which they believe they can compete and submit bids for those contracts as they come up. The Egyptians to date have submitted few bids for U.S. defense contracts and we believe the process of becoming more sophisticated about U.S. procurement practices will be a fairly protracted one.

SENATOR INOUYE: As Egyptian-U.S. relations have grown closer in recent years, has the United States received any assurances from the Government of Egypt that it would grant access rights to the rapid deployment force in the event of a Middle East contingency?

MR. WHITEHEAD: One aspect of the closer U.S.-Egyptian relationship has been the shared perceptions which have marked our close and continuous dialogue on regional security issues. We are confident that, hypothetically, should the two governments conclude that the deployment of U.S. forces to the region is necessary and desirable, the Government of Egypt would facilitate that deployment.

## JORDAN: U.S. ASSISTANCE

SENATOR INOUYE: What is the basis for the DSAA claim that United States aid to Jordan "covers only 66% of sustainment?" Is it the obligation of the United States to provide 100% of the cost of the Jordanian military?

MR. WHITEHEAD: The question of aid to Jordan for sustainment does not refer to the entire Jordanian military but only to the U.S. equipment in Jordan's inventory. As with other nations receiving military aid, we believe that it is in our interest to see that U.S. military equipment provided to Jordan to meet its defense needs be maintained in working order.

Our present aid levels only provide approximately 60% of the funds needed to keep this U.S. equipment fully operational. This determination is made through a combination of evaluation and review, beginning with our security assistance organization stationed in Amman, and reviewed by the various service branches. The determination is made by comparing such indicators as operational readiness and deadline rates with usage experience factors the military has developed in order to forecast how much it costs to maintain and use a given piece of equipment.

## JORDAN: JAPANESE ECONOMIC ASSISTANCE

SENATOR INOUYE: I understand that Japan has decided to provide Jordan with $200 million economic assistance. (GAO Report, May, 1988)

How will this assistance be used?

MR. WHITEHEAD: It is our understanding that Japan is providing a $300 million soft credit program to Jordan. The first $100 million of this facility will initially finance projects in three areas: roads, irrigation and sewerage. Terms and amounts of the credits for each area have not yet been announced by the Japanese Overseas Economic Cooperation Fund (OECF).

SENATOR INOUYE: Does this aid represent a one-year, or a multi-year commitment?

MR. WHITEHEAD: This program is a multi-year commitment in that a credit program will take several years to draw down.

SENATOR INOUYE: Has the United States played a role in encouraging Japanese aid to Jordan?

MR. WHITEHEAD: Yes, we have encouraged Japan to assist Jordan in its development effort, particularly its development program on the West Bank and Gaza.

SENATOR INOUYE: What will Japan be receiving from Jordan in return for its assistance?

MR. WHITEHEAD: To our knowledge, Japan will not receive anything specific from Jordan in return for its assistance, although it is assumed that a significant portion of the credit program will be used to purchase Japanese goods, similar to our Commodity Import Program.

## INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET)

SENATOR INOUYE: I notice that in your congressional justification document you have allocated IMET funds in this fiscal year for developed countries such as Austria, Finland, Iceland, Yugoslavia, and Luxembourg. Under your proposal for FY 1989, all of these countries, except Luxembourg, are to receive IMET funds.

What is your justification for providing IMET funds to these developed countries with professional military establishments?

Since Iceland and Luxembourg are both members of the North Alliance, why are not NATO funds available for military training?

MR. WHITEHEAD: The United States defense assistance program with Austria will help support Austria in its current political and military posture. The U.S. has had an IMET relationship which allows a number of Austrian officers to study at U.S. service schools each year. The IMET program is designed to assist Austria in developing the expertise to effectively manage its defense and to enhance relations between the U.S. and Austrian armed forces. Finland follows a policy of armed neutrality. The United States supports this neutrality, independence and Western cultural orientation. The IMET program has produced a group of officers who now have a first-hand understanding of U.S. military and foreign policy. The continued IMET program will enhance this understanding and improve Nordic stability. Iceland's coalition government supports its membership in NATO and the existence of the U.S.-manned bases at Keflavik. Nevertheless, public support for these relationships has declined. The proposed IMET program for Iceland will support Iceland's efforts to fulfill its mission as a member of NATO and improve U.S. military contact and relationships. Since Yugoslavia's break with the Soviet Union in 1948, an independent Yugoslavia has denied the Soviet Union and its allies direct access to Italy, Greece, and the Adriatic coast. The U.S. has consistently supported the independence, unity, and territorial integrity of Yugoslavia. The IMET program is an important vehicle for exposing future Yugoslav military leaders to American life and values, while providing them with military education and training. As an example, the current Deputy Minister of Defense is a graduate of the U.S. Army Command and Staff College. The use of IMET for these and other developed or relatively high per capita income countries encourages them to participate in U.S. training that we want them to have, but that they might purchase elsewhere. Improved military to military relations and civilian and military contacts with all these countries are in the interest of United States foreign policy and national security. NATO funding is authorized for training in courses required by NATO, not for courses relating to U.S. bilateral interests.

## PEACEKEEPING: U.N. FORCES IN CYPRUS

SENATOR INOUYE: I understand that the deficit of the United Nations Force in Cyprus (UNFICYP) from previous years, a cost borne by the troop contributing countries, is expected to reach $160.9 million by the end of June, 1988.

What, if any cutbacks in the operation of the UN force can be expected from a continued deficit in FY 1989?

Do you anticipate that these cutbacks will have any destabilizing effect on the political situation in Cyprus?

MR. WHITEHEAD: As your question notes, the major portion of the UNFICYP deficit impacts on the troop contributing countries. In late 1987, the government of Sweden, which had contributed one of the largest contingents, decided it could no longer bear the cost and withdrew the bulk of its soldiers from UNFICYP; the Swedish contingent had been part of UNFICYP for 23 years. Two other contributors, Canada and Austria, sent additional troops to UNFICYP to help offset this loss. Although unlikely for the immediate future, it is not out of the question that other troop contributing countries also may decide to withdraw in the future.

All of the countries which now contribute personnel to UNFICYP believe, as we do, that UNFICYP has a vital role to play in Cyprus. The Force keeps the peace between the parties in Cyprus and its withdrawal, or further weakening, could conceivably result in renewed hostilities. UNFICYP, by its very existence, is a factor which helps keep the atmosphere for negotiations from deteriorating. The troop contributors have made clear their commitment to UNFICYP and their resolve to continue their support. They also have stated, however, that they cannot deal indefinitely with the large and growing deficit. The U.S. has been the major financial contributor to UNFICYP, but our contribution suffered a budgetary reduction during the last year, further worsening UNFICYP's fiscal plight. The troop contributors have urged that the Force's financial basis be switched from voluntary contributions to assessed funding. While we are highly sympathetic to the troop contributors' situation, we have doubts about the efficacity of such a funding change. We continue to urge other countries to contribute to UNFICYP and will maintain a dialogue with UNFICYP's troop contributors to look for a solution to the problem.

SENATOR INOUYE: What were the events surrounding the recent killing of a UN soldier on Cyprus? Does the event signal a change in the political climate on the island?

Has the recent killing of a UN soldier in Cyprus led to heightened security measures on the island? Do you anticipate the need for any troop reinforcements or changes in UN policy?

MR. WHITEHEAD: On May 21, 1988, two Austrian soldiers were involved in an altercation with a Turkish Cypriot farmer in a village located in the UN administered buffer zone. The farmer was killed by gunshots fired by one of the soldiers, a lieutenant, who was himself wounded by the farmer, but survived. The UN Secretary General personally appointed a board of inquiry to investigate the incident; the board began work immediately and will report its findings.

A second incident occurred on May 28, 1988, in which a Turkish soldier entered a Greek Cypriot village near the edge of the UN buffer zone. The soldier is variously reported to have been lost or to have been in the act of deserting his unit. The Turkish soldier was killed in an exchange of fire with Greek Cypriot National Guardsmen; two Greek Cypriots were wounded. UNFICYP Commander General Greindl is personally heading an investigation of this incident.

While these incidents were tragic and have caused some increase in tensions, it would be overstating the case to suggest that they have changed the political climate of Cyprus. The Turkish Cypriot leadership is unhappy with the actions of UNFICYP during the two incidents and has communicated that displeasure to the UN Secretary General. The Cypriot Government, while obviously disturbed by the incidents, has reacted in a restrained manner and apparently will await the outcome of the UN investigations. The UN investigations undoubtedly will include a review of UNFICYP operating procedures and reactions relative to the incidents. We have not heard from the UN that there is any need for troop reinforcements or UN policy changes.

We feel strongly that the Secretary General's ongoing effort to restart intercommunal negotiations should not be affected by these events. The search for a lasting, mutually acceptable settlement of the Cyprus problem should be the highest priority of the parties. We believe that the UN Secretary General's laudable, persistent efforts together with the two parties' recognition of that priority will permit the negotiation process to move forward.

## OFFSETS: FOREIGN ASSISTANCE RELATIONSHIPS

SENATOR INOUYE: It is clear that offsets to foreign military recipients result in multiple benefits to local economies, promoting military self-reliance, and encouraging job creation.

Should these significant benefits be counted as part of the foreign assistance provided to foreign governments? If so, how should their value be calculated?

MR. WHITEHEAD: It is true that offsets do benefit the economies of the countries that receive them. However, I do not know how those benefits could be quantified since there is no agreement among economists as to the precise effects. While we recognize that offsets are inefficient and distort trade, in general, we go along with them because if we do not, we will lose important sales such as the F-16, F-18 and AWACS. Such sales enhance our goal of rationalization, standardization and interoperability that permits our forces to operate and share support with the armed forces of friendly countries. However, those arguments do not apply to offsets for FMS recipients, and especially grant FMS recipients, where we are paying the whole tab and providing offsets as well. In that case, and Israel is the only one, we are doing so because we believe that enhancing the recipient's economy serves our own larger interests. We have told the Government of Israel, however, that we intend to curtail the Israeli offsets at the end of fiscal 1989.

SENATOR INOUYE: What is the trend in the type and dollar amount of offset arrangements being negotiated between United States commercial suppliers and foreign military sales recipients?

How do you view this trend and where do you believe it is leading?

MR. WHITEHEAD: While more and more countries seem to be demanding offsets, the Department of State does not have any current statistical information on this point. The offsets report submitted under section 309 of the Defense Production Act, which has data collected in 1985, noted that the apparent benefits of offsets were illusionary, in that many of the offset committments were not in fact fulfilled. That annual report is prepared by an interagency committee of which State is a member. The committee will be collecting additional data from U.S. companies this summer which will perhaps give us a better understanding of the impact of offsets on defense trade.

## OFFSETS: TURKEY F-16 EXAMPLE

SENATOR INOUYE: As part of the F-16 sale to Turkey, General Dynamics and General Electric (manufacturers of the F-16 air frame and engine), agreed to purchase $150 million worth of locally produced F-16 components (direct offset) and $1.27 billion in other goods and services unrelated to the F-16 (indirect offset).

Will any of these F-16 components be used in aircraft owned and operated by United States?

MR. WHITEHEAD: The Department of State understands that some of these components may be purchased by the US Air Force, provided they meet USG quality and price standards.

SENATOR INOUYE: What percentage of foreign offset-related industrial production is returned to the United States in the form of sales to the U.S. Defense Department?

MR. WHITEHEAD: The Department of State does not know what percentage of foreign offset-related industrial production might be returned to the United States in sales to the Department of Defense. The Department of Defense does not report its purchases of foreign produced products to the Department of State.

## OFFSETS: GREECE F-16 EXAMPLE

SENATOR INOUYE: The January 1986, purchase by Greece of 40 F-16 fighter aircraft from the U.S. included 100 percent offset for the $900 million purchase price. The offsets are to be divided into 30 percent directed to the commercial sector, 10 percent directed to tourism and, 60 percent to the military.

How is the 60 percent offset to the Greek military to be structured?

MR. WHITEHEAD: The Department of State understands from the company that this particular offset agreement has been restructured and that the above categories have been abolished. Under the new arrangement General Dynamics has formed a joint venture with the Greek Government -- the Hellenic Business Development Investment Corporation (HBDIC). The board of directors of HBDIC, subject to approval by the Greek Government, will determine investment in Greek industrial projects. This is in lieu of any other offsets.

SENATOR INOUYE: What are the administrative costs to the American taxpayer of compliance with offset agreements of this type?

MR. WHITEHEAD: The Department of State does not believe generally that there are any administrative costs to the American taxpayer of compliance with offset agreements. Offsets agreements are entirely the responsibility of the private company in question, and hence, do not generate costs to the USG or American taxpayer.

SENATOR INOUYE: I understand that a strict penalty clause is included in the F-16 contract in the event the manufacturer fails to fulfill the agreed offsets.

What are the penalties proscribed in the contract?

MR. WHITEHEAD: Under the restructured offset agreement the penalties have been waived.

SENATOR INOUYE: Have American defense contractors ever been penalized for failing to meet the terms of offset arrangements with foreign military sales recipients? If so, in what instances?

MR. WHITEHEAD: The Department of State has no information on possible penalties American defense contractors may have incurred for failing to meet the terms of the offset arrangements these contractors may have negotiated with foreign governments or government associated companies. As a matter of policy the USG does not direct US companies to agree to offsets or enforce contracts such private U.S. contractors and foreign governments may have concluded of their own volition.

## AFFECT OF DEFENSE SALES ON THE U.S. PRODUCTION BASE

SENATOR INOUYE: How has the increasing ability of U.S. military sales clients to produce their own equipment affected our own domestic production base? How has it contributed to the growth in the per unit price paid by our own military services?

MR. WHITEHEAD: Any statistical analysis of these potential relationships would have be developed by the Department of Defense. I do not know that any such study exists. It would be my estimate, however, that -- overall -- the growth of foreign defense production capability has so far not had a significant impact on the U.S. defense production base or unit costs of U.S. military procurement. Certainly, in cases where the United States Government has a responsibility to approve arrangements that facilitate overseas production -- such as licensing or coproduction agreements with U.S. manufacturers -- possible adverse effects on our domestic industry are taken fully into account.

I will add, however, that in recent years there is a clear downward trend in both the absolute and the relative position of the United States as a supplier of defense goods and services. This is due not only to the growth of foreign industries, especially in the developing world, but also to other factors, including the decline in security assistance funding available to finance procurements from the United States, to increasing foreign debt burdens for many of our defense partners and to statutory restrictions or other congressional opposition to certain sales. Should this broad trend continue, I would expect that we will begin to see clearly negative effects on both the production base and the unit costs, particularly of major systems.

## SYRIA: RECENT ARMS PURCHASES

SENATOR INOUYE: There are reports that Syria recently received three advanced submarines from the Soviet Union. Reportedly, each vessel is equipped with 18 anti-ship and anti-submarine torpedoes and carries a crew of 90.

What threat do these submarines pose to neutral shipping in the Mediterranean and to U.S. Naval forces in the region?

Mr. WHITEHEAD: Syria currently has three Soviet-built Romeo class diesel submarines, the last of which was delivered in late 1986. We are unaware of any more recently delivered submarines. Romeo class submarines are diesel-powered and were built between 1958-61. Each submarine can carry 14 torpedoes and has a crew of 54. Although torpedoes are the Romeo's principal armament. it is also capable of laying mines. The Syrians are still training in the use of these vessels.

The submarines do not currently constitute a threat, since Syria is not actively engaged in hostilities. As with most elements of their military, however, we believe the Syrians envisage using the submarines against Israel and any other state with which Syria might be in conflict. Were the Syrians to target neutral shipping in the Mediterranean, these submarines would pose a danger. We assess the threat to U.S. Naval forces in the region as marginal.

SENATOR INOUYE: Do you see this latest arms purchase as an indication that Syria is seeking naval superiority among its neighboring states in the region?

MR. WHITEHEAD: Although the acquisition of submarines suggests Syria wishes to expand the range of operations its navy can perform, the Syrian navy is still a small coastal defense force. Syria has not significantly added to its naval force since late 1986, underscoring the priority Syria puts on improving its air and ground forces. We believe Israel and other neighboring states are monitoring Syrian naval developments closely.

## SUDAN: FY 1989 ADMINISTRATION REQUEST

SENATOR INOUYE: I understand that this year the Administration is proposing that the Government of Sudan be provided with $12 million in Economic Support Funding, $5 million in MAP aid and $1 million in IMET funding.

How can this assistance be justified in light of recent allegations by international relief agencies that the Government of Sudan is engaged in the regular murder and starvation of thousands of Dinka tribesmen?

MR. WHITEHEAD: While there is little doubt about the suffering on both sides of the lines in the war zone, there is no substantiated evidence that the Sudanese Government engages in the starvation and murder of any part of the population. Verifiable evidence relates to isolated incidents, generally in areas beyond effective government control. We have been pressing the Sudanese Government hard to impartially investigate these incidents.

Our ESF, MAP and IMET requests are the minimum needed to maintain equilibrium in our relationship with Sudan. ESF is used to promote important political objectives: meeting critical humanitarian needs of refugees and displaced persons, ending the civil war and undertaking serious economic reform. The MAP and IMET funding levels are the minimum needed to maintain our on-going programs to meet Sudan's basic military logistical requirements. Without continued funding, these programs would no longer be viable. An example is maintaining the C-130's which we have previously funded.

## STINGER MISSILE: CONGRESSIONAL PROHIBITION

SENATOR INOUYE: I understand that the United States Ambassador to Oman, with the approval of the Administration, has asked the Congress to reconsider the sale of Stinger anti-aircraft missiles to Oman. Last year, we prohibited sales of these weapons to Oman and the other countries in the Persian Gulf out of concern that they could fall into the hands of enemies of the United States.

Why is our concern any less valid today than it was four months ago when the Stinger ban was enacted into law?

MR. WHITEHEAD: The Administration's assessment that Oman is able to keep Stingers out of the hands of enemies of the United States remains constant. We have sold weapons to Oman in the past and Oman has demonstrated that they have adequate safeguards to prevent just such an occurrence. The new factor in the equation was Oman's decision to approach Congress directly about a sale and to formally request a sale, despite the Congressional prohibition. The letter from the U.S. Ambassador in Oman to Senator DeConcini, referred to above, was submitted in support of and subsequent to, Oman's request, and with our knowledge.

The Administration was aware of Oman's decision and supports a sale of Stingers to Oman. Oman has been a long and consistent friend of the U.S. Since 1980, through our military Access Agreement with Oman, the U.S. has had peacetime and contingency access to Omani military facilities. Our Agreement is based in part on our friendship and our belief in the stability of the Omani government. Central to U.S. Southwest Asia strategy, this Agreement has also provided the basis for much of Oman's excellent support for U.S. activities in the Persian Gulf. With a history of critical cooperation and attention to mutual security concerns, we believe that Oman could adequately and properly store and protect Stingers, if sold.

SENATOR INOUYE: How many Stingers is the Administration now requesting and what is the basis for Oman's need?

MR. WHITEHEAD: Oman has requested less than a dozen launchers and appropriate number of missiles. We would like to support their request and would welcome the opportunity to discuss Oman's legitimate defense requirements with a view to enabling the sale of Stingers to Oman.

Oman faces a legitimate, potential threat from two neighbors: Iran and the People's Democratic Republic of Yemen. In light of heightened tensions in the Gulf, and particularly following an October border clash with PDRY, Oman determined that it needed air defense for the "second capital" near the PDRY border where the Sultan and his advisers spend a significant part of the year. Moreover, they determined that a limited number of Stingers would best meet their need. We agree with their assessment.

## STINGER MISSILES: Possible Sale to Tunisia

SENATOR INOUYE: Does the Administration have any intention to supply Stinger missiles to Tunisia? If so, what is the policy justification.

MR. WHITEHEAD: At the present time, this is not under active consideration.

## THAILAND

SENATOR INOUYE: I understand that earlier this year the Pentagon sent military supplies to Thailand in its battles with Laos over disputed border territory. State Department spokesman Charles Redman was quoted as saying that: "The United States believes that Thailand's claim of territory ... is valid" and that "the United States has fully discharged its obligations to Thailand as an ally and will continue to do so."

Did Thailand formally request this assistance? If so, how and through what channels?

MR. WHITEHEAD: Yes, Thailand formally requested assistance through the normal Foreign Military Sales channels. The request was for expedited delivery of ammunition and was sent through the American Embassy in Bangkok to Departments of State and Department of Defense.

SENATOR INOUYE: What was the cost and extent of the military assistance provided to Thailand during this recent round of fighting on the Laotian border?

MR. WHITEHEAD: The military assistance provided to Thailand included the expedited delivery of 74 tons of ammunition. Some of this delivery was ammunition which had been ordered earlier but had not yet been delivered and some of it was for artillery ammunition and other ammunition items requested by a new FMS case (VSB). The total cost of case VSB to date is $7,738,834 although not all of this amount was included in the expedited delivery.

SENATOR INOUYE: Under what authority was this military assistance to Thailand provided?

MR. WHITEHEAD: This military assistance to Thailand was provided under the authority of the Foreign Assistance Act of 1961 as amended and the Arms Export Control Act.

SENATOR INOUYE: Were any American military personnel directly involved in the transport of this equipment to the zone of combat?

MR. WHITEHEAD: No, there were no American military personnel directly involved in the transport of this equipment to the zone of combat.

SENATOR INOUYE: Under what conditions will the United States "continue" to respond to a Thai request for military assistance?

MR. WHITEHEAD: Department of State and Department of Defense carefully review all requests for military assistance to ensure that providing such assistance conforms to the Arms Export Control Act and is in the interest of the United States. If Thailand requests additional expeditious delivery of equipment and/or munitions, that request would be reviewed thoroughly.

## CHAD

SENATOR INOUYE: Can you confirm reports that France had decided to build a permanent air base at Faya-Largeau in northern Chad?

MR. WHITEHEAD: The Government of France has announced that it intends to construct a long, hard-surfaced runway at Faya Largeau, in order to foster civilian and economic development in northern Chad. The French government has acknowledged that the runway could also be used for combat aircraft.

SENATOR INOUYE: Did the United States participate in the French decision to build a permanent air base in northern Chad and will the U.S. have access to its facilities?

MR. WHITEHEAD: We and the French consult closely and often on Chad, and the French decision to build the runway was discussed with us before it was announced. We also enjoy close cooperation with France on the ground in Chad. The specific issue of U.S. access to the runway, once it is built, has not been raised.

SENATOR INOUYE: Will Chad contribute to the cost of this base. If so, how will Chad finance its contribution?

MR. WHITEHEAD: We know that the French government has had conversations with the Chadians on the subject of the base but have no knowledge as to the outcome, nor specifically as to whether or how Chad will participate financially.

## MAURITIUS

SENATOR INOUYE: I understand that a decision has been made to open an IMET program with Mauritius on the grounds that military-to-military relations have developed rapidly during the past year. The DSAA reprogramming notification sent to this Subcommittee on February 11 was appropriate because Mauritius "is a model of lively democratic practice and exemplary human rights observance."

Why does a country with such an exemplary human rights record, no standing army, and only a 700-man Special Mobile Force and a 240-man Police Riot unit require IMET assistance?

Is the provision of IMET assistance not simply recipe for the militarization of the country?

MR. WHITEHEAD: The Government of Mauritius is significant to the U.S. because of its strategic location, support on issues in international fora, and cooperation on security-related bilateral issues. The IMET program is intended to increase the defensive capability of Mauritius' paramilitary organization, but primary emphasis is on professional development and coast guard training. These efforts will enhance Mauritius' ability to protect its Exclusive Economic Zone and combat narcotics trafficking. The courses requested by Mauritius and recommended by U.S. personnel are selected to enhance professional and technical development of the coast guard and the paramilitary with emphasis on not militarizing the country.

SENATOR INOUYE: Prime Minister Anerood Jugnauth of Mauritius recently stated that: "the excision of Diego Garcia from Mauritian territory before the granting of independence to the Isle of Mauritius is contrary to United Nations resolutions, and I have always considered it an illegal act." The statement coincides with public calls for a return of the island archipelago to Mauricien sovereignty.

Has the United States secured any agreements eith the Mauritians regarding long-term use of Diego Garcia?

MR. WHITEHEAD: We have no agreement and no discussions concerning such agreement are underway. During Prime Minister Jugnauth's recent visit to the U.S. this issue did not figure prominently in our discussions. Our relations with Mauritius are good.

The U.S. faciltiy at Diego Garcia was established pursuant to 1966 and 1976 agreements between the U.S. and the UK, the sovereign power for Diego.

## IRAN: REPORTS OF DISCUSSIONS WITH SECRETARY WHITEHEAD

SENATOR INOUYE: Mr. Secretary, I understand that there are reports in a Kuwaiti newspaper that you recently met with Iranian officials in Algiers to try to negotiate the release of American hostages held in Lebanon.

Is it true that you met with Iranian officials in early May to discuss the return of American hostages held in Lebanon?

MR. WHITEHEAD: This report is completely untrue. I have never met with any Iranians to discuss return of American hostages or any other subject.

SENATOR INOUYE: Is it true that you offered, on behalf of the United States Government, to unblock Iranian assets, lift a trade embargo and review relations with Tehran in return for the release of 9 American hostages held in Lebanon?

MR. WHITEHEAD: This allegation is not true. Furthermore, I would like to restate for you one of the cornerstones of U.S. policy regarding terrorism and hostage-holding: although we are willing to talk to any party regarding the hostages, the U.S. will not make concessions for their release.

SENATOR INOUYE: If this report is true, would the lifting of the trade embargo against Iran include the sale of military equipment, ammunition and/or spare parts to Tehran?

MR. WHITEHEAD: Any reports that I or any other U.S. Government official met with Iranian officials to discuss and negotiate release of American hostages held in Lebanon are totally false.

## LIBYA: REPORTED INTEREST IN CHINESE CSS-2 MISSILES

SENATOR INOUYE: Mr. Secretary, there are reports that Libya is trying to buy CSS-2 surface-to-surface missiles from the People's Republic of China. The long-range missiles are the same as those China recently sold to Saudi Arabia.

If this report is true, what steps is the United States prepared to take to prevent Libya from acquiring these missiles?

MR. WHITEHEAD: We are well aware of Libya's long-standing effort to acquire ballistic missile systems from foreign suppliers. Libya also has a domestic missile development program. We take these programs seriously and keep a close eye on both of them. We have made, and will make high-level diplomatic interventions whenever we believe that the chance of Libya actually acquiring missiles from another country is serious.

SENATOR INOUYE: Has the United States approached the Chinese Government on the question of weapons sales to Libya? If so, what was their response?

MR. WHITEHEAD: We have not had discussions with the PRC on arms sales, in general, or missile sales to Libya specifically. We do not believe that China sells any substantial amount of arms to Libya. We have, as you are aware, discussed the problem of missile proliferation in the Middle East with the PRC.

## MIDDLE EAST: MISSILE TECHNOLOGY

SENATOR INOUYE: According to one report, Egypt has designed and built 15 new missile systems that are expected to be suitable for various tactical purposes. (FBIS, 5, 8 March 1988)

Can you confirm reports that Egypt is developing a long-range ground-to-ground (SKUD-B (sic)) missile with North Korea? If so, what is the status of this program?

MR. WHITEHEAD: We can not confirm these reports.

SENATOR INOUYE: I understand that recently Israel successfully launched the domestically produced Jericho II missile.

What is the range of this missile?

MR. WHITEHEAD: Published reports indicate a range from 510 to 900 miles.

SENATOR INOUYE: Has the Administration made any effort to join with our European allies to control the proliferation of missile technology in the Middle East?

MR. WHITEHEAD: The U.S. and our chief allies have controlled the proliferation of nuclear-capable ballistic and cruise missile technology to all destinations since early 1985. In April 1987, as you know, we created the Missile Technology Control Regime, a common set of policies among the seven Economic Summit partners, which place specific export controls on nuclear-capable missile technology.

SENATOR INOUYE: How would you suggest the United States act to curb the spread of missile technology?

MR. WHITEHEAD: The United States has been acting to do just that since 1981. Through the years our policy has developed, through such means as the the Missile Technology Control Regime, to deal with new challenges. At present, in addition to restraint among the democratic suppliers of missile technology, we are also seeking the cooperation of the Soviet Union and PRC in halting missile proliferation. We have intervened with many of the countries which appear to be most interested in acquiring missiles to directly address the "demnad-side" for major new missile systems. We are working to strengthen and expand all these initiatives. For example, we are urging regional dialogues on the security problems missile proliferation raises. Moreover, to address the problems caused by missile systems already deployed, we are seeking assurances that such missiles as will not be equipped with nuclear, biological or chemical weapons and will not be used in a first strike.

## KUWAIT: PROPOSED F-18 FIGHTER SALE

SENATOR INOUYE: Assistant Secretary of State Richard W. Murphy recently disclosed that the Administration plans to sell the F-18 fighter-bomber to Kuwait. The F-18 is an aircraft which never has been sold to an Arab or any other Third World nation. Reportedly, the Kuwaitis want to buy 40 F-18s. I am told the entire deal is worth $680 million. The F-18 has a combat radius of more than 500 nautical miles, which would allow it to fly from Kuwait almost to the Strait of Hormuz or strike deep into Iranian territory.

What is the justification for this proposed sale when it was at the request of Kuwait that the United States undertook the protection of reflagged Kuwaiti ships in the Gulf?

MR. WHITEHEAD: The Persian Gulf maritime escort operation and the proposed sale of 40 F-18 aircraft to Kuwait--worth, as a complete package of aircraft, spare parts, training, and ground support, in excess of $1.5 billion--are two distinct components of U.S. policy in the region. The object of this policy is to further vital American interests, including the free flow of oil through the Gulf, the security of friendly Gulf Arab states, and the containment of Soviet and Iranian influence.

The successful maritime escort operation, in which over fifty convoys have safely transited the Gulf, has discouraged Iranian intimidation directed against Kuwait and enjoys broad support in the U.S., our European allies, and the Gulf Arab states. The sale of F-18 aircraft to Kuwait will likewise serve as a deterrent to hostile acts by Kuwait's external foes and, by so doing, further the U.S. interests I mentioned. It will underscore Kuwait's willingness to assume greater responsibility for its own defense, as we have been urging Kuwait to do in the belief that the Gulf Arab states should rely on their own resources for their first line of defense.

Kuwait, located between the Gulf belligerents, and dependent on exposed oil and water desalinization facilities, is vulnerable to external aggression. Recent attacks on Kuwaiti interests include the 1986-87 Iranian campaign against Kuwaiti shipping which led to the escort operation, the Silkworm missile firings at Kuwait in October and December 1987, periodic shelling from the Iranian-occupied Faw Peninsula (before it was retaken by Iraq), the March 1988 Iranian gunboat attack on Bubiyan Island, and the April 1988 firing of a SCUD missile into southern Kuwait. In response to this demonstrated threat, and realizing that a threat is likely to remain into the forseeable future, Kuwait has committed itself to improving its defenses. A key aspect of this commitment is the replacement of Kuwait's aging A-4 and Mirage F-1 aircraft with modern fighters.

In selecting the F-18, then, Kuwait is opting for an aircraft that will bolster its defenses into the next century, long after U.S. escort operations have ended. For the reasons I have stated, we believe it to be in the U.S. national interest for Kuwait to obtain this enhanced self-defense capability.

SENATOR INOUYE: Can we expect that Kuwait also will be requesting mid-air refueling capability, external fuel tanks, additional bomb racks and enhanced weapons systems as the Saudis have done since receiving their F-15s?

MR. WHITEHEAD: Kuwait's F-18s, like the A-4s currently in its inventory, will have a mid-air refueling capability. However, the Kuwaitis have never requested tanker aircraft, and we consider it unlikely they will do so. Kuwait has requested external fuel tanks for the F-18, giving the aircraft a strike radius of approximately 500 nautical miles.

In requesting F-18s, the Kuwaitis have asked for weapons systems appropriate to the external threat they face:

--The AIM-9L SIDEWINDER air-to-air missile (already approved for sale to Kuwait) will increase Kuwait's ability to counter an air threat;

--The MAVERICK air-to-ground missile in the anti-tank and anti-ship modes will counter ground and sea surface threats;

--The cluster munitions and laser-guided bombs will help Kuwait deal with a ground attack by massed forces or a sea attack by small boats;

--The air-launched HARPOON missiles will enhance Kuwait's capabilities to defend shipping and coastal installations from attack from the sea.

Weapons technology, both offensive and defensive, is continually improving. It is thus reasonable to assume that, as the weapons of external threat are modernized, Kuwait will continue to seek improved weapons that are available to counter that threat.

## PAKISTAN: ARMOR MODERNIZATION

SENATOR INOUYE: I understand that Pakistan recently was offered the General Dynamics M1A1 main battle tank.

What is the size of the Pakistani tank requirement?

Has Pakistan requested a coproduction arrangement for the M1A1 similar to that won by Egypt?

If a contract with Pakistan were signed, how long would the U.S. M1A1 production line be extended beyond the 1996 deadline for the completion of the Egyptian contract?

MR. WHITEHEAD: The Government of Pakistan has expressed interest in purchasing the M1A1 tank. It has made no formal request. A trial of two M1A1s has been scheduled for this summer. If they go ahead, the Pakistani requirement will depend on final price and other factors; it is not possible to estimate the effect on production lines at this time. Pakistan has not expressed interest in a coproduction arrangement.

## SPAIN: RELOCATING THE 401st TACTICAL FIGHTER WING

SENATOR INOUYE: Mr. Secretary, early in 1986 Socialist Premier Gonzalez promised the Spanish electorate that he would expel the 401st U.S. Tactical Fighter Wing and its complement of 72 F-16s aircraft if voters would back him on Spain's membership in NATO. U.S. operations at Torrejon base, where the planes are located, have about 4,000 U.S. servicemen and about 1,000 Spanish workers. Italy has agreed to accept the F-16's but does not wish to bear the whole cost of the transfer.

Why is there no mention in the DSAA Congressional Presentation of the Spanish request that the United States relocate the 72 F-16's belonging to the 401st Tactical Fighter Wing?

MR. WHITEHEAD: Prime Minister Gonzalez' promise to the Spanish electorate in early 1986 was a general call for a gradual reduction in US forces based in Spain. The question what those reductions would actually be was the subject of active negotiation until January 1988, when we reluctantly acceded to the Spanish government demand that the 401st leave Spain. At that time, this decision was announced and put on the public record. Since we were requesting no Foreign Military Sales credits or Economic Support Funds for Spain in FY 89, and since the negotiation of the new defense agreement was still under way, we prepared a very general submission on Spain for the Congressional Presentation Document itself.

SENATOR INOUYE: What do you estimate to be the cost to the American taxpayers of relocating the U.S. 401st Tactical Fighter Wing outside of Spain?

MR. WHITEHEAD: The NATO Alliance agreed at its recent meeting of Defense Ministers to fund all the required costs of relocation from the NATO common infrastructure program.

SENATOR INOUYE: What new NATO responsibilities has Spain agreed to assume to compensate for the expulsion of the 401st Tactical Fighter Wing from the country?

MR. WHITEHEAD: Spain's proposals for its military contribution to NATO are currently under study by the Alliance. However, as far as I know, none of those steps are considered to be in compensation for the Wing's departure, but rather a result of Spain's obligations as a member of the Alliance.

## PORTUGAL

SENATOR INOUYE: Mr. Secretary, for the third straight year we have been unable to meet a best efforts pledge of providing $125 million per year per basing agreement. I understand that the agreement expires in 1991, but can "be reviewed as early as 1988."

What is the status of base rights negotiations with the Portuguese?

Mr. WHITEHEAD: U.S. use of Lajes Base in the Azores derives from the 1951 U.S.-Portugal Defense Agreement, and was most recently extended in 1983 until 1991. Arrangements at Lajes have generally worked well, but the Portuguese have been disappointed by the level of U.S. assistance after FY 85, which they feel has been inconsistent with the spirit of our "best efforts" pledges. Consequently, the Portuguese Government has requested consultations under a provision in the 1983 extension agreement to identify and overcome difficulties arising from the shortfalls and to explore possibilities for expanding the framework of bilateral cooperation in non-security areas as well. The first round of consultations took place on April 29, and was restricted to a brief discussion of procedural matters. The next round is expected to take place in the latter half of June. Both sides hope to complete the consultations this summer.

SENATOR INOUYE: The American base at Lajes on Terceira Island in the Azores has long been regarded as vital because of its location midway in the Atlantic Ocean. The base serves as a refueling stop for some transatlantic military flights and, more important, as a base for U.S. Navy P-3 planes that fly across the Atlantic trying to detect Soviet submarines.

Are there any substitutes for the American base at Lajes? If so, what are they and how would the cost and effectiveness of our submarine surveillance operations be impacted by relocating U.S. operations?

MR. WHITEHEAD: Requests for an assessment of the possibilities, impact, and cost of trying to substitute for Lajes are best addressed to the Department of Defense, but U.S. access to facilities at Lajes has long been critical to U.S. interests globally and in NATO. At very modest cost to the U.S. tax payer, Lajes has provided an invaluable transit point to non-NATO contingencies in the Middle East and Africa as well as supporting NATO control of strategic sealanes in the eastern Atlantic and the approaches to the Mediterranean vital to reinforcement of Europe in the event of war. Thus, Lajes is an important link in the forward defense of the Alliance and of the United States itself.

## PERU

SENATOR INOUYE: I understand that Peru will build 80 ships for the Soviet Union as part of a new accord to refinance Peru's debt to Moscow of nearly $650 million. The order will include 20 cargo ships, 20 refrigerated container ships, 20 personnel transports, 10 tugboats and 10 Coast Cuard vessels. Under the proposed deal, the Soviets will pay 90 percent of the construction costs in cash with the remaining 10 percent written off against the debt.

It is my understanding that Peru has South America's biggest Soviet-made arsenal, including 42 Mi-24 "Hind" helicopter gunships, 250 T-54 and T-55 tanks, about 50 Sukhoi fighter aircraft and 22 Antonov An-32 Cline Transport planes. At the same time, Peru has been the biggest recipient of U.S. aid in South America. More than on-third of its exports in the past years have gone to the U.S.

Should the United States be concerned about the strategic implications of Soviet involvement in Peru? If so, why should we be concerned?

MR. WHITEHEAD: The shipbuilding deal that you mention is apparently being discussed by the Peruvians and the Soviets, but it is not finalized, and there are a number of obstacles that remain to be overcome. It is true that the USSR is Peru's leading arms supplier; this has been so since the early seventies when the populist military government of the late Gen. Velasco concluded a deal with the Soviets on very favorable terms.

The U.S. is of course concerned about the Soviet relationship with Peru. It is the only significant Soviet inroad in South America. But we do not wish to exaggerate the implications of the relationship. Peru is a non-aligned state that pursues mutually beneficial relations with a number of countries. Its cultural traditions and, as you have noted, its trade and economic relations, tie it very strongly to the West. It is for this reason that the U.S. must remain engaged in Peru, and we have a number of bilateral projects, on narcotics control and in economic and food assistance for example, that seek to keep us positively engaged.

## PHILIPPINES NUCLEAR POLICY

SENATOR INOUYE: The Philippine Senate is considering a bill which would ban port calls by nuclear-powered ships, overflights or landings by aircraft carrying nuclear warheads, and the storage of nuclear weapons. Passage of the bill would seriously affect U.S. operations in the Philippines since it is the policy of our Government neither to confirm nor deny the presence of nuclear weapons or nuclear power plants on its ships or bases.

What consequences would the passage of this bill have on U.S.-Philippine base negotiations?

Has the United States sought the advice of its Southeast Asia allies on this problem? If not, why not?

MR. WHITEHEAD: Although the bill has been passed by the Philippine Senate, a number of steps would be required before it could become law, including reporting the bill out of committee in the House, debate and passage by the House, and signature by President Aquino. If the President vetos the bill, it must be overridden by a two-thirds majority of both houses of Congress in order to become law.

We have made our views on this bill known to the Philippine Government. We have noted that as now drafted, the bill would permit no flexibility on nuclear matters and would be incompatible with our neither confirm nor deny policy. Our policy of neither confirming nor denying the presence or absence of nuclear weapons is an essential component of our global policy of deterrence.

Other Southeast Asian nations are generally aware of U.S. views on such proposed legislation and on other potential constraints on our deterrence capabilities.

## PHILIPPINES BASE RIGHTS NEGOTIATIONS

SENATOR INOUYE: President Corazon Aquino has said that she does not want to see the "mini-Marshall plan" concept linked to the subject of base rights. Foreign Minister Manglapus has agreed saying of the United States: "They should not dangle that. I am just not going to accept it as part" of the base compensation package.

Do you view the issues of base-rights and the mini-Marshall plan as linked?

MR. WHITEHEAD: The International Assistance Initiative for the Philippines is unconnected with the Military Bases Agreement. This is a multilateral economic program separate from our bilateral security relationship with the Philippines.

SENATOR INOUYE: The U.S.-Philippines bases agreement authorizing use of Clark Air Base and Subic Naval Base, expires (sic) in 1991. Philippine Foreign Minister Manglapus has made several public statements in which he indicated that he favors a sharp increase in the $180 million compensation which the United States pays yearly.

What different scenarios is the Administration considering in response to this demand?

Will the Administration recommend to Congress that it increase U.S. foreign assistance to the Philippines? If so how will you recommend that the Philippines be funded?

MR. WHITEHEAD: The Military Bases Agreement (MBA) does not expire in 1991, but rather becomes of indefinite duration that year, subject to termination by either party on one year's notice. In 1979 the U.S. and the Philippines agreed to hold a review of the MBA every five years. We are currently undertaking such a review, which began on April 5. One of the issues being discussed in the context of the review is the level of "bases-related" security assistance ("security assistance" defined as MAP, FMS and ESF.) Security assistance levels growing out of the review will reflect critical Philippine needs, our interest in supporting an allied democratic government working to restore its economy and defeat a communist insurgency, and the grim budgetary environment for our assistance programs worldwide.

U.S. military facilities in the Philippines contribute significantly to the Philippine-U.S. security partnership and promote stability in the region. We will of course consult with the Congress on any increase recommended pursuant to the MBA Review.

SENATOR INOUYE: On May 5, the Philippine House of Representatives ordered a complete inventory of the existing facilities and resources inside the U.S. military bases in preparation for the formulation of a consolidated "comprehensive alternative plan: for the use of the bases in the event of the abrogation of the Philippines-U.S. Military Bases Agreement.

Has similar inventory of U.S. facilities in the Philippines been made by our Government?

Has the Government of the Philippines requested that United States personnel assist in compiling their inventory? If so, does the Administration plan to comply?

MR. WHITEHEAD: CINCPAC recently reviewed major U.S. military units and missions in the Philippines as part of an alternative basing study conducted in case the United States cannot retain them after 1992. The review was designed to identify major facilites/equipment systems (a) to be left behind or (b) to be moved to alternative sites in the event of a pull-out, and to assess the cost of relocating facilities/equipment to be kept by the U.S.

While media reports indicate that the Philippine House of Representatives has ordered an inventory of the U.S. military facilities in the country, to the best of my knowledge, the Goverment of the Philippines has not approaced us to request any such inventory or assistance in conducting such an inventory. The U.S. commanders provide information on major U.S. military equipment systems pursuant to the Memorandum of Agreement signed at the close of the 1983 Military Bases Agreement review. They do not plan to provide a more detailed inventory to the Goverment of the Philippines.

## PHILIPPINES: VIGILANTE GROUPS

SENATOR INOUYE: During the last several months, I have become aware of an upsurge in the reports of vigilante violence emanating from the Philippines. Respected human rights organizations, like Amnesty International, have documented hundreds of cases of disappearances, extrajudicial executions and torture allegedly carried out with the knowledge or acquiescence of local military commanders. On April 22, the Philippine Senate Committee on Justice and Human Rights released a report in whcih it noted that: "Certain police and military personnel use vigilante groups and their members to perform police and military activities..."

In light of these allegations, what success have you had in meeting your stated goal of professionalizing the Philippine military?

MR. WHITEHEAD: The violation of human rights continues to pose a serious problem in the Philippines. While Communist rebels remain chiefly responsible for such abuse, citizens' groups popularly, but inaccurately, referred to as "vigilantes" have been implicated as well. Some observers believe that charges leveled against these citizens' groups, however, are frequently fabricated or exaggerated by organizations seeking to discredit the Aquino Government. Such political factors, together with the fact that many alleged abuses occur in remote rural areas, make it impossible to obtain reliable information about the human rights record of nearly 200 citizens' groups now thought to be active in the Philippines.

There is evidence that some military commanders in the field may condone the violation of human rights by citizens' groups which they may see as counterinsurgency assets. Indeed, these groups--many of which constitute a genuine grassroots response to rebel abuse, intimidation, and extortion--have been largely effective in depriving Communist guerrillas of their sanctuaries and base of support. In some areas, military commanders have been instrumental in organizing citizens groups; elsewhere, an alliance of convenience exists between the military and groups organized by local civilian authorities. Anecdotal evidence of human rights abuse usually implicates religious cults, private armies, or bands of common criminals seeking political legitimacy by espousing anti-Communist beliefs. There are incidents of such groups having occasionally established a de facto alliance with local military forces.

In October 1987, the Aquino Government promulgated guidelines intended to bring so-called "vigilante" groups under competent local civilian authority. These guidelines hold members of citizens' self-defense groups to criminal standards no different than those in effect for the general population. Members of such groups are licensed to bear arms only if otherwise authorized. There is evidence that these guidelines may not be seriously enforced at the local level despite central government efforts to oversee their implementation by the integrated national police and Philippine constabulary. Failure to do so is clearly contrary to policies enunciated at the highest civilian and military levels of the Aquino Government.

Alleged incidents of human rights abuse by the Philippine military were up in 1987, largely as the result of increased combat between government forces and increasingly militant Communist rebels. Task Force Detainees (TFD), a human rights monitoring groups critical of the Aquino Government, reports that, despite escalated fighting, incidents of government-sponsored human rights abuse last year were far less frequent than under former President Marcos. The number of alleged political killings and related incidents of torture in 1987 were less than half those reported in 1985. TFD does not issue statistics documenting widely reported human rights violations by Communist rebels.

We believe the Aquino Government has made significant progress in reprofessionalizing the Philippine military. Clearly, much remains to be done. Human rights advocates frequently fail to appreciate fully the formidable obstacle to improving respect for human rights in the Philippines. Such impediments include lawlessness bred by a long-term Communist insurgency and a breakdown in military discipline encouraged during two decades of strong-man rule under former President Marcos. We are working to support President Aquino's Government in its effort to better train and equip and instill in military units a clear appreciation for the benefits of reducing the incidence of human rights abuse.

SENATOR INOUYE: Should the Congress approve the Administration's funding level for the Philippines in FY 1989, what steps will you take to ensure that human rights violations by military-backed vigilante groups will not occur?

MR. WHITEHEAD: U.S. military assistance to the Philippines has as its objective providing the AFP with training and equipment needed to defend the Philippine people and their newly-restored democracy from a virulent Communist insurgency. The current dependence on citizens' groups to combat Communist rebels results in large part from the inability of regular armed forces to do the job alone. The Aquino Government has promulgated guidelines regulating the conduct of so-called "vigilantes" and now must move to implement those guidelines more effectively. We are hopeful that programs now in place to sensitize military personnel to the human rights issue, together with improved material support, will serve to reduce the role of citizen self-defense forces in a comprehensive counterinsurgency strategy.

Strengthening local law enforcement and judicial systems is essential to instilling greater respect for human rights. We are looking into ways in which the U.S. Government can assist the Philippines in these areas within limits imposed by applicable U.S. law.

## AFGHANISTAN AID TO UN MISSION

SENATOR INOUYE: On May 19 Secretary Shultz notified the Chairman of the full Appropriations Committee of the President's intention to exercise his authority under Section 552(c) of the Foreign Assistance Act in order to direct that the Defense Department provide services to the United Nations Good Offices Mission in Afghanistan and Pakistan (UNGOMAP). The Committee was told that the assistance will be in the form of air transport services to move UNGOMAP observers and equipment to the Afghanistan-Pakistan region. The Defense Department estimates the value of these services at approximately $224,000.

Why did the Administration wait until the eve of the Soviet troop withdrawal from Afghanistan to notify Congress of its intentions?

MR. WHITEHEAD: There was no prior guarantee that the latest round of UN proximity talks in Geneva, which have been ongoing since 1982, would lead to a final settlement including provision for a timetable for the withdrawal of Soviet forces. The UN, therefore, deliberately did not begin to draw up plans for the implementation of the accords until after the April 14 signing ceremonies in Geneva. With Soviet withdrawal to commence on May 15, the UN was understandably concerned about moving necessary equipment to the region as quickly as possible. The Secretary General formally requested U.S. assistance in airlifting equipment for the UN Good Offices Mission in Afghanistan and Pakistan (UNGOMAP) on April 27. Congressional notification, under the circumstances, took place in as timely a manner as possible.

SENATOR INOUYE: How much of the cost of sustaining the UNGOMAP observers is being borne by other nations?

MR. WHITEHEAD: Troop contingents for the UNGOMAP have been drawn largely from existing UN peacekeeping operations which are supported from the regular UN budget. In addition, the Japanese government has pledged five million dollars to the UNGOMAP effort and Saudi Arabia has agreed to contribute fifty thousand dollars. The ten troop contributing countries (Austria, Canada, Denmark, Fiji, Finland, Ghana, Ireland, Nepal, Poland, Sweden) are not fully reimbursed for their costs, which in some cases are very substantial. The United Nations is currently negotiating with a number of other potential donors concerning contributions of additional equipment.

SENATOR INOUYE: Please supply this Subcommittee with a comprehensive breakdown of how the cost of this operation as well as the nationalities of the U.N. observers and the equipment they require to perform their duties.

MR. WHITEHEAD: The United Nations has currently only a rough estimate of the costs of UNGOMAP, which it puts at a one million dollar per month figure for the nine month period of Soviet withdrawal. A reduced UNGOMAP mission is likely to continue operations for several additional months, with the monthly cost presumably being greatly reduced. Fifty-one military officers from ten countries (Austria, Canada, Denmark, Fiji, Finland, Ghana, Ireland, Nepal, Poland, and Sweden) have been assigned to the UNGOMAP mission. The UNGOMAP commander is Finnish Major General Helminen. In addition, there are about thirty members of a civilian support staff. As a small observer force, UNGOMAP personnel are lightly armed and depend upon jeep-type vehicles for transportation. The United States government provided an airlift to Pakistan of the telecommunications equipment required for the UNGOMAP mission. This consisted of approximately 110 cubic meters of equipment, weighing about 24 tons, for use by UNGOMAP's Islamabad and Kabul offices to communicate within the region and with UN headquarters.

## COOPERATIVE TRAINING WITH MAJOR NON-NATO ALLIES: FY 1988 GENERAL PROVISION

SENATOR INOUYE: Last year this Subcommittee was responsible for including in the Continuing Resolution a general provision amending Section 21(g) of the Arms Export Control Act. The provision defined the term 'major non-NATO ally'.

Under current law is the status of non-NATO considered permanent or must it be renewed periodically? How is this renewal accomplished?

MR. WHITEHEAD: The relevant legislation does not require that the designation of major non-NATO allies be renewed as such. Once a country is designated as a major non-NATO ally, that designation remains in force unless a significant change occurs in the United States bilateral relationship with the country concerned. It should be noted, however, that Section 21(g) incorporates by reference the list of countries designated as non-NATO allies pursuant to section 1105 of the National Defense Authorization Act for FY 1987. Section 1105 also provides that not later than January of each year, a report shall be provided to Congress enumerating the countries eligible for participation in cooperative reasearch and development projects. This list includes countries designated as "major non-NATO allies," and thus Congress is informed on an annual basis of the countries that meet the statuary standard.

SENATOR INOUYE: If the designation "major non-NATO ally" is in need of renewal, how does this fact affect procurement costs for countries designated as non-NATO allies of the United States?

MR. WHITEHEAD: Since designation does not require renewal as such, this issue does not arise.

## CONGRESSIONAL PRESENTATION

SENATOR INOUYE: In your policy justification for assistance to Israel you state that: "Emphasis by Israel on the use of FMS funds in Israel has limited the availability of FMS for major procurements from the United States and has delayed large scale implementation of new programs for helicopters and missile patrol boats."

What major Israeli procurements from the United States have been affected by the use of FMS funds in Israel?

How has the use of FMS funds in Israel affected the overall procurement of the Israeli Defense Forces?

MR. WHITEHEAD: Last year, Israel used $330 million of its $1.8 billion FMS level for offshore procurement in Israel for the Lavi, Merkava tank and jet fuel. That is clearly money that could have been spent in the United States with companies such as General Dynamics, McDonnel Douglas, Exxon etc., but the Government of Israel chose, with our approval, to spend it in Israel. $1.47 billion is then available for U.S. procurement. While at first glance, this may seem adequate to permit substantial new purchases in the United States, it does not. The Israeli armed forces purchase substantial follow on support for their existing equipment and, as a cash flow country, they also have to make progress payments on already purchased equipment, such as F-16s and F-15s. That does not leave a great deal for the purchase of new systems from U.S. manufacturers, such as attack and transport helicopters, or missile patrol boats.

## FMS DEBT REFINANCING

SENATOR INOUYE: Congress worked hard to craft a workable program designed to bring sorely needed relief to a broad cross-section of strategically important allies. Congress set the policy; Congress passed the law.

On what basis has the Treasury Department defied Congressional intent by issuing regulations which will reduce the number of nations able to take advantage of the program?

MR. WHITEHEAD: We cannot speak for Treasury on this issue. We would note, however, that preliminary reactions from several foreign governments and commercial banks indicate that the interim regulations are adequately flexible to permit participation in the refinancing program. Tunisia, Jordan, Israel and El Salvador are now actively negotiating with commercial banks on a financial package. Turkey has also expressed keen interest in refinancing, and Egypt continues to study the program. What is unclear at this point is to what extent specific provisions, for example, on the strict non-separability of the 90 percent-guaranteed portion of the loan from the non-guaranteed portion, will affect the cost of borrowing.

SENATOR INOUYE: Why do the Interim Rules exclude logical conventional finance practices when these approaches would save debt-burdened U.S. allies large sums of money, and neither cost the federal government liabilities on the Federal Finance Bank or the Defense Security Assistance Agency?

MR. WHITEHEAD: The Treasury Department is in the best position to answer this question. I would point out, however, that the Treasury, State and Defense Departments were cognizant of the need for guidelines on FMS debt refinancing which would meet the normal requirements of capital markets. The challenge was how to meet these requirements while at the same time conforming to the letter and intent of the authorizing legislation. We know, for example, that some foreign governments and commercial banks have complained about the non-separability of the 90 percent-guaranteed portion of the loan from the non-guaranteed portion. Others would have also liked more flexibility in setting repayment terms for the refinancing loan. The authorizing legislation, however, contains specific provisions limiting what is permitted in these two areas.

SENATOR INOUYE: Mr. Secretary, there is no basis in the statute for Treasury's regulatory language on collateralization. If Congress had been concerned with the subject, the statute would have made mention of collateralization.

In view of this, how can any mention of collateralization in the Interim Rules be justified, let alone the highly restrictive language which has caused such an uproar?

MR. WHITEHEAD: This question should be appropriately addressed to the Treasury Department since it has final authority to establish the implementing regulations. On our part, we would welcome a more flexible guideline on collateralization since it would help to reduce refinancing costs for FMS debtors.

SENATOR INOUYE: Why do the Interim Rules, by means of language which is extreme or without foundation, mock the statute's explicit instruction to Treasury not to increase the cost to FMS debtor nations of obtaining private financing, or to inhibit their ability to enter into prepayment arrangements?

MR. WHITEHEAD: We cannot answer for the Treasury Department on this matter. The extent to which the implementing regulations may have the effect of increasing the cost of FMS refinancing to debtor countries or inhibiting their ability to participate in the program is still unclear. We expect that the interim regulations will permit the application for FMS refinancing by at least several key countries. Once we receive applications, we will be in a better position to assess how certain regulatory provisions may be affecting refinancing costs. Our preliminary review, however, indicates that the additional costs may be modest.

## PEACEKEEPING: SINAI OBSERVATION FORCE

SENATOR INOUYE: I understand that due to budget constraints, the Director General of the Multinational Force and Observers (MFO) patrolling the Sinai Peninsula has sent letters to the countries which provide infantry battalions (Colombia, Fiji, and the U.S.), requesting that each battalion be reduced by 100 men beginning in October. The reductions will require closing non observation/checkpoints in Sinai.

How severely will this force reduction affect MFO operations?

MR. WHITEHEAD: The MFO indicates that the proposed reductions are not expected to materially affect its ability to carry out its mission; however, it cautions that further cuts will require fundamental changes in its concept of operations.

SENATOR INOUYE: Has the number of border incidents between Israel and Egypt increased or decreased in recent years? How severe have the incidents been?

MR. WHITEHEAD: While the MFO's mandate does not include policing the border, any illegal crossing incidents observed by the MFO are noted and reported to the two parties -- Israel and Egypt -- but not the United States. Thus while we are aware of isolated events, such as the recent incidents in which terrorists reportedly crossed the border (from Sinai into Israel) to commit acts of violence, we would not have sufficent data to project a trend.

## FUNDING DECISIONS ON SECURITY ASSISTANCE

SENATOR INOUYE: Please describe for the Subcommittee the means by which funding decisions on security assistance are reached within the Department of State -- and between the Department of State and the Department of Defense.

MR. WHITEHEAD: I assume for the purposes of this question that when you refer to "security assistance" in this context, you are including MAP and FMS but not ESF. The security assistance programming and budgeting process is long and complex and involves extensive interagency coordination. The planning cycle begins in the spring for the fiscal year beginning October 1 of the following year and overlaps with the legislative and implementation cycle for the current year.

In the spring, the Department of State issues guidance to the field on the preparation of AIASAs, or Annual Integrated Assessments of Security Assistance, which analyze and justify security assistance needs according to U.S. policy objectives and general budgetary guidelines. Preparation of the AIASA is a country team effort.

In the summer, the Bureau of Politico-Military Affairs (PM) develops and coordinates security assistance recommendations for countries through the interagency Security Assistance Program Review Working Group (SAPRWG), which it chairs and administers. Through this mechanism, drawing on overall budgetary guidance from my office and on input from the field, the geographic bureaus prepare country and regional papers, which are reviewed, discussed, and cleared by key members of the SAPRWG. These papers outline priorities, justify recommended funding levels, and serve as the basis for the overall security assistance budget proposal submitted to the Under Secretary for Security Assistance for his consideration. At this juncture, regional bureaus and other SAPRWG members may raise outstanding issues for final resolution. The security assistance proposals are then integrated into the overall budget request for International Affairs (Function 150), which is coordinated by my office and approved by the Secretary.

Once approved by the Secretary, a formal budget proposal is sent forward to OMB, normally in September, but sometimes later, depending on the status of the previous fiscal year's budget. OMB may modify the proposed security assistance proposal further within the context of the President's overall Federal budget request. Such changes are also subject to review. The final proposal, the President's request, is transmitted to Congress as part of the Federal budget and explained and justified in the Congressional Presentation Document.

Following Congressional appropriation of funds, the Administration must notify Congress of how it plans to distribute, or allocate, funds within 30 days after the President signs appropriating legislation into law. During this period, the interagency community makes the difficult decisions on how best to allocate funds. Invariably, funding shortfalls lead to keen competition for scarce resources. Thus, within the Department, various allocations scenarios are formulated, discussed among SAPRWG members, and reviewed by principals for final determination.

At every stage of the security assistance budget formulation and allocations processes, the Department of State works closely with the regional offices of the Office of the Secretary of Defense and with the Defense Security Assistance Agency (DSAA). DSAA plays a major role in shaping military aid programs and in preparing the Congressional Presentation Document.

SENATOR INOUYE: Please provide the Subcommittee with a comprehensive chart outlining the path of decision-making on security assistance matters within the Administration.

MR. WHITEHEAD: Below is a chart outlining the normal flow of security assistance decision-making within the Executive Branch.

## SECURITY ASSISTANCE DECISION-MAKING

SEC/STATE (INTERAGENCY-COORDINATED)
YEAR III GUIDANCE TO FIELD
(MAY, YEAR I)*

SUBMISSION OF EMBASSY COUNTRY
TEAM REPORTS/PROPOSALS
(JUNE, YEAR I)

UNIFIED COMMANDS
REVIEW AND COMMENT
(JULY, YEAR I)

WASHINGTON AGENCIES REVIEW
(SAPRWG PROCESS)**
(JULY-AUGUST, YEAR I)

SUBMISSION OF RECOMMENDATIONS
(AND UNRESOLVED DIFFERENCES)
TO UNDERSEC/STATE FOR
SECURITY ASSISTANCE
(AUGUST-SEPTEMBER, YEAR I)

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*Planning begins two years in advance. Thus, Year I represents the present fiscal year; Year III represents two fiscal years hence.

**SAPRWG, or Security Assistance Program Review Working Group, is interagency mechanism for review of programs and formulation of funding proposals. SAPRWG consists of representatives from State geographic and functional bureaus, DOD (OSD, DSAA, and JCS), ACDA, AID, Treasury, OMB, and NSC.

UNDERSEC/STATE REVIEW OF
POSSIBLE APPEALS
(AUGUST-SEPTEMBER, YEAR I)

SUBMISSION OF UNDERSEC/STATE
DECISIONS TO DEPSEC/STATE
FOR INTEGRATION INTO OVERALL
150 BUDGET FUNCTION PROPOSAL
(AUGUST-SEPTEMBER, YEAR I)

SEC/STATE REVIEW OF
POSSIBLE FINAL APPEALS
(SEPTEMBER, YEAR I)

SUBMISSION OF SEC/STATE-
APPROVED BUDGET PROPOSAL
TO OMB
(SEPTEMBER, YEAR I)

OMB REVIEW AND DEVELOPMENT
OF "PASSBACK"
(OCTOBER, YEAR I)

POSSIBLE SEC/STATE-APPROVED
APPEALS TO OMB PASSBACK
(OCTOBER-NOVEMBER, YEAR I)

FINAL OMB REVIEW AND
PRESIDENTIAL DECISIONS
(NOVEMBER-DECEMBER, YEAR I)

SUBMISSION OF BUDGET
REQUEST LEVELS TO CONGRESS
(JANUARY, YEAR II)

SUBMISSION OF CONGRESSIONAL
PRESENTATION DOCUMENT
(FEBRUARY, YEAR II)

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LEGISLATIVE PROCESS
(MARCH-SEPTEMBER, YEAR II)
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STATE COORDINATION OF
INTERAGENCY PROPOSALS FOR
ALLOCATION OF APPROPRIATION**
(OCTOBER-NOVEMBER, YEAR III)

SUBMISSION OF PROPOSALS
(AND UNRESOLVED DIFFERENCES)
TO UNDERSEC/STATE FOR SECURITY
ASSISTANCE AND DEPSEC/STATE
(OCTOBER-NOVEMBER, YEAR III)

SEC/STATE DECISIONS
ON FINAL ALLOCATIONS
(OCTOBER-NOVEMBER, YEAR III)

NOTIFICATION TO CONGRESS
OF ALLOCATIONS (PURSUANT
TO SECTION 653(a), FAA)
(NOVEMBER-DECEMBER, YEAR III)

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## QUESTIONS SUBMITTED BY SENATOR LEAHY

### MILITARY VS. ECONOMIC ASSISTANCE LEVELS

SENATOR LEAHY: Mr. Derwinski, like most Vermonters I am a strong supporter of foreign aid, especially the first two goals set out in the Foreign Assistance Act:

- -- the alleviation of poverty; and
- -- to help developing countries achieve self-sustaining growth with a fair distribution of wealth.

We spend billions on economic and development assistance. I support those programs, although I often wonder whether we are much closer to achieving those goals today than when they were written in 1961.

Since 1961, Americans have given over $800 billion in foreign aid. Yet the rate of income growth in the poor countries is the same today as in 1980, and just one-half what it was in 1970.

In 1980, the foreign debt of the developing countries was $450 billion. Today it is $900 billion.

In Africa, people are eating less today than they were in 1980. During that same period, military aid to the developing countries rose by 300%.

Military budgets in the developing countries are seven times larger than in 1961, but half of the people in those countries don't even have safe water to drink.

I have to ask if this justifies the billions poured out by American taxpayers.

The United States has interests in the security of its allies, of its military installations overseas, and in supporting democracy in the Third World. But too often we try to do that by pouring in more and more military aid. We buy influence at the top, but we do not alleviate the underlying causes of economic instability and political repression.

I think we should be thinking a lot harder about how effective our aid is in getting the results we want, and less on worrying about how much one particular program is getting compared to another.

MR. WHITEHEAD: The Administration supports the goals of development assistance which you outlined in your remarks. The Administration also supports the goals for security assistance as outlined in Part II, Chapter I - Policy, Section 501 of the Foreign Assistance Act. This section notes the sense of Congress to support countries which are threatened by Communist aggression. It also makes special mention of our interest in assisting our NATO and other allies.

With regard to the statistics you employ, we do not dispute them. However, they might be more useful if put into perspective. Clearly, the 1980's have been a difficult period for many developing countries. Economic growth rates slowed from an average of 5.6 percent in 1970-79 to a range of 1.6-4.2 percent in the years since then. Per capita income growth rates also declined significantly, falling from 3.1 percent in the 1970's to a 1-2 percent range in the 1980's. These global statistics, however, mask broad differences in regional performance. Developing countries in Asia, for example, maintained relatively high rates of economic growth and per capita income growth (3-8 percent) throughout both decades. In sub-Sahara Africa the trends in per captia income growth also showed little change in the 1970's and 1980's. Their growth rates remained generally well below 1 percent.

The foreign debt of developing countries almost doubled since 1980, rising from $636 billion to more than $1,200 billion this year. The large increase of foreign debt has received considerable attention as the cause of developing countries' economic difficulties. A more appropriate view of this debt is that it is a symptom of more fundamental economic problems. These problems included counter-productive economic policies in the developing countries themselves, a slowdown in the growth of industrial countries, a sharp fall in international commodity prices, and increased trade protectionism worldwide. This period of economic crisis also coincided with a post-World War II low in U.S. bilateral assistance levels. One of the reasons developing countries had to borrow so heavily from commercial banks in recent years has been because there was less official aid.

Your point about nutrition levels in Africa, lamentably, is well taken. The often disastrous nutrition levels are the result of drought, bad host government policies, and the predictable effects of deforestation. Major assistance agencies, including USAID, began warning African governments of the effects of continued deforestation in the early 1970's. Yet cultural and economic realities prevented most African countries from acting on this advice. I would also point out that the fact that many Africans enjoy the nutritional levels they do, as inadequate as these may be, is due in no small part to the food assistance that the United States and other international donors provide.

Military budgets in the developing world have increased since 1961. However, I have to point out that one of the principal reasons for this increase is that many countries that now have military establishments were not independent in 1961. This includes nearly all African countries. Most countries believe that one of the instruments they need for maintaining their sovereignty is a military force. In addition, most third world militaries are deeply involved in the development process of their nations. Our assistance to these militaries often supports these development efforts. At a minimum, by providing funds for military equipment, this assistance permits national funding to be directed toward economic and social development requirements.

We would agree that foreign assistance does not always achieve the goals we set for it as quickly as we would like. Certainly, when the United States embarked on its foreign assistance programs in the early 1950's, nobody could foresee how long and difficult the development process would be. The United States, nonetheless, continues to encourage economic policies in developing countries which insure the most effective use not only of U.S. assistance but of the entire range of domestic and foreign resources available for development.

To imply that military assistance -- versus economic assistance -- is somehow partially responsible for the length of this process is, in my opinion, mistaken. The ratio of economic assistance to our military assistance traditionally has been around 60% economic and 40% military. Factoring out the large programs directed towards our allies, this ratio swings even more strongly to economic assistance. Nonetheless, we continue to believe that viable military assistance programs support recipient country objectives and, more importantly, our interests. Further, we believe that rather than looking at our foreign assistance as two distinct programs, one economic and the other military, it is better to view them as parts of a whole.

We agree that we must evaluate the effectiveness of our programs and judiciously vary the mix country by country and year by year. We must also keep in mind that the crucial factor in the effectiveness of our assistance is the policies that the recipient country follows. Our assistance provides a catalyst for progress, but it will never be the engine of this progress. However, we believe that these programs will be a necessary part of our diplomacy for many years to come.

## IMET PROGRAM

SENATOR LEAHY: The Chairman asked several questions about the IMET program. I have some further questions on this subject. Why are you requesting $50,000 to train military officers from Brunei, a country with only 225,000 people, a per capita income of $21,000 -- that's $5,000 more than the average income of Americans -- and that can afford to throw away $10 million on the Contras?

MR. WHITEHEAD: Since achieving independence in 1984, Brunei has strengthened cooperation with its ASEAN neighbors and the United States. U.S. Pacific Command efforts and visits by U.S. warships and military aircraft have fostered military-to-military cooperation, an important dimension of our bilateral relations. A small IMET program will strengthen our military to military ties and encourage Brunei to look to the United States for training and equipment. The proposed IMET program will enhance the professional and technical skills of selected participants by providing training in management and logistics.

SENATOR LEAHY: I want to repeat a question the Chairman asked concerning Austria, Finland, and Iceland. All are wealthy countries with per capita income levels approaching our own.

Austria has a military tradition that goes back a thousand years. Finland is officially neutral. Iceland has no military establishment, simply a coastal patrol and rescue organization. If these "military-to-military" contacts are so important, why isn't this funded by the Department of Defense?

MR. WHITEHEAD: The United States defense assistance program with Austria will help support Austria in its current political and military posture. The U.S. has had an IMET relationship which allows a number of Austrian officers to study at U.S. service schools each year. The IMET program is designed to assist Austria in developing the expertise to effectively manage its defense and to enhance relations between the U.S. and Austrian armed forces. Finland follows a policy of armed neutrality. The United States supports this neutrality, independence and Western cultural orientation. The IMET program has produced a group of officers who now have a first-hand understanding of U.S. military and foreign policy goals. The continued IMET program will enhance this understanding and improve Nordic stability. Iceland's coalition government supports its membership in NATO and the existence of the U.S.-manned bases at Keflavik. Nevertheless, public support for these relationships has declined. The proposed IMET program for Iceland will support Iceland's efforts to fulfill its mission as a member of NATO and improve U.S. military contact and relationships. Training must be funded and administered under the Foreign Assistance Act and, with few specific exceptions, DOD is not authorized to fund training for foreign personnel. The use of IMET for these and other developed or relatively high per capita income countries encourages them to participate in U.S. training that we want them to have, but that they might purchase elsewhere. Further, military-to-military relations are in the interest of United States foreign policy and national security as well as the interest of the Department of Defense.

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SENATOR LEAHY: You've requested millions of dollars for IMET programs in some of the poorest, most underdeveloped countries in the world, many barely able to maintain the most elemental trappings of a modern state. I could list dozens of examples. Here are just three:

You've asked for $100,000 for Burkina Faso, where the per capita income is $150.

$140,000 for Burundi--per capita income $250.

$50,000 for Sao Tome--per capita income $320.

These countries are among the very poorest in the world. They have no known enemies. We have no significant security interests there. What possible justification can there be to spend almost $300,000 for this purpose, when they so desperately need every dollar for economic development?

MR. WHITEHEAD: The IMET program in Burkina Faso is a highly cost effective means of maintaining a dialogue with the country's new leadership and of persuading moderate and pragmatic elements of the government of the importance of a healthy working relationship with the United States. Severe cuts in our bilateral development assistance program have rendered the IMET program particularly important as a tool for access and influence as well as for exposure to U.S. values.

Burundi is governed by a predominantly military regime and the IMET program is key to building U.S. influence and access. The program is designed to lessen Burundi dependence on Soviet military training while exposing the trainees to U.S. democratic human rights values. After more than a decade of close ties with the Eastern Bloc, Sao Tome and Principe has taken a number of steps to liberalize its economy and diversify its relationships. It has actively sought closer ties with the West. The signing of the IMET agreement and the accreditation of a non-resident U.S. Defense Attache indicate Sao Tome's interest in cooperation with the United States. A continuing, strong IMET program will encourage the present and future members of the government to continue these initiatives. Economic development is vitally important, but equally important are access and influence derived from enhanced relationships resulting from IMET programs.

SENATOR LEAHY: You've also asked for $125,000 to train military officers from Paraguay and $50,000 for Chile--the two remaining dictatorships in this hemisphere that survive because of the military. The Paraguayan dictatorship is 30 years old and the Chilean 15 years. What is the justification for providing any military assistance or training whatsoever to either of these countries?

MR. WHITEHEAD: Chile is entering a period critical to a possible restoration of democracy. A renewal of the IMET program with the Chilean armed forces would expose participants to democratic concepts and processes and enhance efforts to promote Chile's return to democracy. This training is contingent upon developments in accordance with existing legislation. The Paraguayan military is considered one of the pillars of the Government and as such can be expected to play a crucial role in future political development. The military's actions will be important if there is to be a eventual transition to democracy in Paraguay. By exposing the Paraguyan armed forces to the alternative pattern of military norms represented by the United States forces, IMET programs encourage Paraguay's military to play a moderating, non-political role. Without their understanding of the cultural and social differences or our having access to future leaders, we will have little or probably no influence. Changing historical, cultural, and social patterns takes acceptance and time. The IMET program provides one of our most cost effective means to meet this foreign policy goal.

SENATOR LEAHY: One final question on IMET. How do you measure whether these programs are cost effective--or at least how much progress is being made toward a specific set of goals? How can Congress evaluate whether each program contributes in some measurable way to the objectives of the Foreign Assistance Act...or are these programs simply funded every year because they have been funded every year in the past?

For example, since 1980, we have spent $638,000 on IMET for Burkina Faso, while development assistance to that country in 1988 is one fourth what it was in 1980. What has that IMET money accomplished that justifies its continuation when development assistance was being cut?

Another example. Since 1980, we have spent $599,000 on IMET for Paraguay. Last year, Paraguay voted with us in the U.N. a total of 21% of the time. Amnesty International says the security forces there torture and kill political prisoners. What specific US foreign policy objectives has nearly $600,000 of IMET money attained?

MR. WHITEHEAD: Quantitative evaluation of a people oriented program with a primary purpose of establishing access and long term relationships is difficult to measure. Since 1950, IMET and its predecessor program have trained in excess of 500,000 officers and enlisted personnel -- representing most countries of the free world, in more than 2,000 different specialties -- from basic technical skills to professional military education. The training advances the efficiency, professional performance, and readiness of each nation's armed forces to support specific professional military requirements. In addition, English language training, which is essential to CONUS training, contributes directly to increased rapport with the United States and, in the long term, to a greater understanding of U.S. society, institutions, and ideals, and commitment to internationally recognized human rights. In addition to teaching military skills and U.S. military doctrine, IMET provides significant opportunities for future access to the civilian and military leadership of other countries. The program not only supplements several countries' indigenous training efforts, but frequently is the only major alternative to Soviet-oriented programs.

As in the past, a significant segment of present and future military leaders are likely to hold future positions or prominence in their countries. From FY 79-84, for example, over 1,540 IMET-trained personnel held such positions -- including chief of military services, cabinet ministers, ambassadors, senior staff officers, field commanders, and commandants of senior professional military schools. This number included approximately 1,475 officers of general and flag rank.

Each year the Administration provides the Congress through the Congressional Presentation Document the need and justification for all foreign assistance programs as defined by the Foreign Assistance Act and within the guidelines and controls of that Act and the Arms Export Control Act. We develop this information from various reports and other management processes. These facts, defining the justification of these programs, are then submitted to Congress for your evaluation and support. In the case of Burkina Faso, as in all countries, the IMET program and development assistance are separate tools accomplishing different aspects of foreign policy. The security forces in Paraguay are made up of the military and separate police forces. The IMET program has no contact with the police force who are reported currently to be the primary offenders against human rights. Our long range goal is to influence a future government through access to potential military leaders. Further, the IMET funding of $125,000 per year probably will not be significant enough incentive to change the voting record of the current government. Without their understanding of the cultural and social differences or our access to future leaders, we will have little or probably no influence. Changing historical, cultural, and social patterns takes acceptance and time. The IMET program provides one of our most cost effective means to meet this foreign policy goal.

SENATOR LEAHY: What would be your position on the inclusion of language in the foreign aid bill requiring an annual report to Congress on the cost effectiveness and specific progress towards identifiable goals of the IMET country by country programs?

MR. WHITEHEAD: Quantitative evaluation of a people oriented program with a primary purpose of establishing access and long term relationships is difficult to measure. Each year there is a qualitative evaluation provided to Congress through the Congressional Presentation Document as the Administration states the need and justification for all foreign assistance programs as defined by the Foreign Assistance Act and within the guidelines and controls of that Act and the Arms Export Control Act. We are prepared to respond to any questions to these facts defining the justification of these programs. To develop a detailed quantitative report for the small IMET program to 106 countries would require extensive recording and reporting requirements that would not be cost effective. Further, the primary long range objectives of the program would be difficult to measure on an annual basis. Information is provided on IMET trained military and civilian leaders in positions of influence and prominence. This information is collected approximately every five years, since the number of changes at these levels do not warrant collection at shorter intervals.

## MILITARY AID TO GUATEMALA

SENATOR LEAHY: Last year you requested and Congress approved 7 million dollars in MAP military equipment to Guatemala. This year you are requesting an additional 5 million dollars in MAP for Guatemala.

Last year you said Guatemala needed the 7 million dollars to improve its helicopter fleet and to buy trucks and spare parts. That's the same reason you want more military aid this year. I understand there is currently at least 5 million dollars in the military aid pipeline that has not been disbursed. I also understand that according to Defense Minister Gramajo there are less than 1,000 guerrillas in Guatemala. Press reports indicate that counterinsurgency units are being moved out of the jungle and disbanded. Obviously, the guerrillas don't pose a serious threat to the government.

Shouldn't we reevaluate this MAP level in light of the improved security situation in Guatemala? If we are to provide further aid, are there more urgent or appropriate military needs that might be met, such as training and education in human rights, acceptance of civilian control, respect for democratic institutions, civil action such as road building, construction of clinics and schools, provision of potable water, and so on?

MR. WHITEHEAD: Although the Guatemalan guerrilla movement is in a seriously weakened state and cannot mount large operations in populated areas, it continues to drain resources and take its toll in combat deaths and injuries in the armed forces. While it is difficult to determine guerrilla group strength accurately, we believe the figure to be somewhat higher than that quoted. We are not aware of Guatemalan armed forces counterinsurgency units being permanently withdrawn and disbanded. Despite clear improvement in the Guatemalan military's ability to prosecute the counterinsurgency while safeguarding noncombatants to the maximum extent possible, the continuation of effective combat operations is placed at risk by insufficent resources. Armed forces units seeking to maintain the momentum in the field suffer a severe lack of communications equipment and tactical mobility, two essentials in fighting an insurgency, as well as medical equipment and supplies and other nonlethal materiel.

Ground and air transportation assets have taken a tremendous toll over the years in achieving the level of success against the guerrillas. Since the reinstitution of U.S. grant aid for equipment, the Guatemalan government has carefully determined requirements to restore the military's capability. These assets are essential for moving personnel and equipment for civic action efforts in remote regions.

Guatemala received no U.S. military assistance between 1977 and 1985. The modest MAP levels for FY 1988 and 1989 will still meet only Guatemala's most pressing materiel needs. During the critical transition to legitimate democracy from 1985-88, the Guatemalan military's share of its government's budget has gradually declined. Over that period, U.S. Government MAP allocations have totalled less than 6 percent of the Guatemalan military budget.

Constrained by delivery schedules, of the 17 million dollars in aid allocated during the last three years, only some 3.4 million dollars in requests have been delivered to date. While this is frustrating here and in Guatemala, it is important to our policy objectives that our MAP level continue to communicate appropriate U.S. concern for Guatemalan security and promote stable, democratic government. The Department of Defense is making efforts to accelerate MAP deliveries. All 17 million dollars have already been programmed for priority needs of the Guatemalan armed forces and there remains a need for further funding.

Planning is, in fact, underway to identify other forms of cooperation to broaden our military assistance initiatives with Guatemala into areas such as those suggested by your question. One specific area identified is to improve the capacity of the Guatemalan Army engineer units. With our encouragement, Guatemalan military education increasingly emphasizes support for the democratic process. Central to the program is non-partisan training in democracy and civil affairs. A human rights curriculum for soldiers has been instituted in all military schools. In an effort to professionalize the armed forces further, efforts are being made to create a national defense institute for civilian and military leaders.

SENATOR LEAHY: In light of the recent coup attempt, I would agree that the U.S. must demonstrate its unwavering support for President Cerezo. However, I am very concerned about reports of continuing human rights abuses by the military, and by coup plotting and even attempts at coups. How could we use military aid to strengthen Cerezo's control over the military establishment? Could we, for example, provide the aid directly to the civilian government rather than to the military establishment, so the Army would need Cerezo's approval to get it?

MR. WHITEHEAD: In fact, all significant U.S. military aid initiatives are approved by President Cerezo. The U.S. provides military assistance to governments, not to military establishments. Civilian and military leaders in Guatemala and all of Central America understand that the U.S. will only respond to requests from the elected civilian president. It is our policy that military assistance should reinforce democratic civilian rule, not undermine it.

A majority of the military institution has demonstrated in recent events that it supports democratic government. Troublemakers in the armed forces have been reassigned or relieved for cause, and others may be indicted and tried by either court martial or civil courts. The Government of Guatemala in no way sanctions or condones human rights violations. Civilian assertion of authority over the army is certainly new in Guatemala, but it must be remembered that the military is an evolving institution, the support of which has been, and will continue to be, important to the success of the democratic transition.

## MILITARY AID TO EL SALVADOR

SENATOR LEAHY: Since 1980, we have given $862 million in military aid to El Salvador. The justification for that aid has been to counter the guerrilla insurgency and right-wing terrorism.

A recent study by researchers at the John F. Kennedy School of Government concludes that "the FMLN remains a formidable foe, its attacks exacerbating the deterioration of the Salvadoran economy. The FMLN--tough, competent, highly motivated--can sustain its current strategy indefinitely."

Yet the focus of US assistance, and the strategy of the Salvadoran military remains, as it always has, to defeat and destroy the guerrillas in the field.

In the meantime, the Salvadoran economy is stagnating, political instability is rife, the far right is making major gains, Salvadorans by the thousands are fleeing violence, poverty and lack of opportunity.

Have we got our priorities right? Shouldn't the overwhelming emphasis in our assistance to El Salvador be on economic and development aid? Shouldn't military aid be held to the lowest level consistent with the ability of security forces to hold off the guerrillas until the economy can provide some basis for Salvadorans to support the political regime?

MR. WHITEHEAD: As a review of our annual Congressional Presentation Documents over the past several years will reveal, the goals of our security assistance to El Salvador are to help the elected government of El Salvador foreclose military victory to the insurgents while encouraging socio-economic reforms which might bring them into the democratic process. We have strongly supported the consolidation of democratic government and promoted both economic growth and an equitable distribution of economic benefits. We have provided $756.87 million in grant military assistance and $126.5 million in Foreign Military Sales credits between 1980 and 1988, while our economic assistance, including credits and guarantees, has been in the range of $2.5 billion during the same period.

Not only has our assistance helped to foreclose a military victory by the guerrillas, which was a clear and present danger in the early 1980's, it has helped reduce guerrilla strength by 50 percent. It has helped the Salvadoran armed forces deprive the insurgency of the control of any Salvadoran territory. It has forced the guerrillas to give up conventional strategy and tactics, and revert to a lower level insurgency, focused on economic destruction, terrorism, and attempts to prevent democratic government and economic development from reaching the people. It has also safeguarded five free and fair elections, a new constitution, freedom of the press and expression, and a fully functioning pluralistic democracy. This democracy is, in fact, supported by the vast majority of the Salvadoran people, as the turnout of 1.1 million voters (of 1.6 million eligible) in the face of guerrilla terrorism amply demonstrated on March 20, 1988.

Our military assistance in Fiscal Year 1988 of $86.5 million is already at the minimum subsistence level for the armed forces and is insufficient to cover any significant equipment losses that may result from combat losses this year. Our FY 1989 request of $95 million is also the minimum required for sustaining operations at the current level. To decrease military assistance below our request level would begin to reverse gains already made and enhance the ability of the guerrillas to damage the economy and destabilize democratic government, further impeding the government's ability to bring economic development and the benefits of democracy to all of its citizens.

SENATOR LEAHY: Have you even considered changing course? Or will it be business as usual, with untold hundreds of millions of American tax dollars poured down the bottomless pit in El Salvador?

MR. WHITEHEAD: We are well satisfied with our present policy of encouraging democratic development and supporting the democratic center at the expense of the extremists at both ends of the political spectrum. It is a policy which has been pursued since at least 1979 when the civilian-military junta overthrew the repressive government of Gen. Humberto Romero, and it has had strong bipartisan support. One need only look at the situation as it was in El Salvador in 1979-81 to realize how successful our policy has been. In many ways, the situation in El Salvador has surpassed our expectations. And, I daresay, it has surprised and embarrassed many of the policy's must vocal critics of those years. Before the fall of General Romero, the severely inequitable economic system and an unrepresentative government threatened to swell guerrilla ranks. Even after reforms were instituted, the communist guerrillas, despite relatively little popular support, threatened a military victory over the small, poorly-equipped, ill-trained Salvadoran army. The government was run by a series of juntas. Constitutional guarantees were suspended. Firefights between armed guerrilla supporters and the security forces took place on the streets of the capital. Political violence was rampant and seemed uncontrollable.

U.S. policy, and our economic and military assistance, prevented a communist guerrilla takeover precisely because we helped the Salvadorans build a functioning, if imperfect, democracy with full constitutional guarantees at the same time we provided the means to fight the armed insurgents. We supported a respect for human rights which helped reduce political killings and disappearances to a relative handful. We supported land reform, and helped pull the economy out of a tailspin, in which GDP was falling several percent a year. Our aid and our policies helped reverse the decline and stabilize the economy, and provided a sound basis for continued democratic development. Given the situation as we found it, these are no small accomplishments. We and the Salvadoran people have achieved this with a cummulative total of U.S. assistance over eight years which is just slightly greater than the assistance we provide to either Egypt or Israel in a single year. Given the importance of El Salvador to our regional security interests, the gains which have been made there, and the sacrifices made by many brave Salvadoran democrats, including President Duarte himself, we would not characterize El Salvador as a "bottomless pit" for U.S. tax dollars.

## ESF FOR AFRICA

SENATOR LEAHY: Last year, the Congress appropriated $90 million in Economic Support Funds for sub-Saharan Africa. The purpose of this aid, as this subcommittee stated in its report, was to help the "most impoverished countries, particularly those affected by drought."

I recently learned that at least $17 million of it is being allocated on foreign policy grounds, not drought-related or development grounds--namely payments or quid pro quos for the presence of defense, Voice of America, or NASA installations in Liberia, Djibouti and the Seychelles. As one of the principal authors of this appropriation, I state emphatically that the intent was to aid distressed sub-Saharan countries, especially those suffering from drought--not to pay rent for the presence of American installations.

Does AID understand that this was the clearly stated intent of that $90 million appropriation? How was it decided that $17 million would go to Liberia, Djibouti and Seychelles? How does the Seychelles, a tourist mecca in the middle of the Indian Ocean, qualify as an impoverished sub-Saharan country suffering from drought? How did Liberia, a country with a non-performing government, get a piece of this earmark? How did Djibouti, a recenlty indpendent ex-French colony still receiving massive funds from Paris, squeeze in there?

MR. WHITEHEAD: U.S. foreign assistance has traditionally been allocated on the basis of both developmental and humanitarian concerns on the one hand and political and strategic factors on the other. Programatically, this distinction has been recognized in the existence of the separate budgetary accounts for Development Assistance and for the Economic Support Fund.

Although it would be an exaggeration to label ESF as purely "political" in motivation, clearly political considerations have always been important in the allocation of ESF money. The disticntion between the functions of development assistance and ESF the two accounts has been strengthened in the current fiscal year with the establishment of the Development Fund for Afrcia. As a result, ESF funds for Africa have been reduced, both absolutely and in relation to the DFA, and concentrated in a select number of countries with particularly strong ties to the United States (see table). ESF recipients in sub-Saharan Africa have declined from 19 in fiscal 1988 (including our support to disadvantaged South Africans).

It is emphatically not the case that ESF money is paid as "rent" or as a direct quid pro quo for the presence of US military or cummunications facilities in the recipient country. It is the case that ESF is used primarily to support countries where political relations with the United States are particularly close. Not surprisingly, it is these same countries that have agreed to allow the US to operate the above-mentioned facilities on their soil. Both factors--the provision of ESF aid and the operation of US facilities--reflect a common cause: the existence of strong political relations. One is not given in exchange for the other.

We also, to the extent practicable, as the legislation states, use ESF for development purposes. For example, in Senegal, our ESF assistance supports policy reform in the agricultural sector. In Chad, a portion of the ESF will fund a road maintenance project.

As always, the Unites States is providing substantial resources to aid the drought-affected countries of sub-Saharan Africa. Although the final figures will not be definite until the end of the fiscal year, we estimate that the US will provide approximately $350 million in emergency food aid to sub-Saharan Africa in fiscal 1988 under Title II of PL 480 and Section 416 of the Agriculture Act of 1949.

## BASE RIGHTS

SENATOR LEAHY: In your statement you said that our allies with whom we are currently negotiating renewed base agreements--Greece, the Philippines and Portugal--feel that we are not paying enough for these bases. Why do they feel that way, particularly when they receive both economic and security benefits from our presence there?

MR. WHITEHEAD: In recognition of our mutual interest in modernizing Portuguese defense capabilities and in connection with the 1983 agreement extending U.S. base rights at Lajes in the Azores, the U.S. Government pledged its "best efforts" in seeking an upward trend in security assistance to Portugal. The target level of military assistance was $125 million annually. We reached this target in FY 85, but have fallen short in succeeding years because of budget cuts and earmarking. These unfulfilled expectations--particularly where we have sharply reduced assistance levels which we pledged to try to raise--have induced in some Portuguese the feelings you describe.

Greece's per capita GNP is the third lowest among NATO countries; yet Greece's defense effort is among the top three in NATO in manpower and percent of GNO devoted to defense. Greece feels the need to modernize its forces, a goal which we support. The Greek Government's concern on aid is particularly focused on increasing the grant/forgiven component in order to ameliorate Greece's larg FMS debt exposure.

Though the Philippines receives the fifth largest amount of U.S. economic supprt fund (ESF) and security assistance in the world, some Philippinos feel that the amount is insufficient given the country's economic development needs, the drain of fighting a communist insurgency, and the usefulness to the U.S. of the bases themselves.

SENATOR LEAHY: How do you arrive at a value, in dollars of the benefits--both economic and security--our allies receive from our bases and our commitment to defend them against attack? What is the value for the three above-named countries?

MR. WHITEHEAD: Foreign Military Sales (FMS), Military Assistance Program (MAP) aid, and ESF for FY87 amounted to:
Greece: $343 million
Portugal: $144.8 million
Philippines: $350 million

As for the value to the local economy of base spending on construction, local hire labor, utility payments, local purchases, and the like, we defer to the Department of Defense as the agency best able to calculate these figures.

SENATOR LEAHY: How do you quantify in dollars the benefits to the United States of these bases?

MR. WHITEHEAD: The value of national security and mutual security within an alliance cannot be measured with precision. We currently spend less than two percent of our annual federal budget on foreign assistance, including assistance to countries where base rights are a part of the overall security relationship. This is indisputably money well spent. The problems we help solve and the threats we counter through this security cooperation foar outweigh the costs.

## AFGHANISTAN: DIVERSION OF STINGER MISSILES

SENATOR LEAHY: The Chairman asked a question about stinger missiles supplied to the Mujahideen. I would appreciate receiving the information concerning Stingers that can not be accounted for and how they were lost.

MR. WHITEHEAD: It recently came to our attention that a number of U.S.-made Stinger missiles turned up in Qatar. We asked the Qatari government how the missiles were procured and for permission to examine them. Qatar claims that the Stingers were bought on the international arms market but has not given us access to the missiles. We are continuing our efforts to gain access and to regain control of these weapons. Qatar also claims that the serial numbers were filed off.

Though there is speculation that the missiles were obtained from Afghan resistance fighters, we have no evidence to prove so. We note further that the Kabul regime has claimed to have captured some Stingers during military operations. We are still investigating.

## QUESTIONS SUBMITTED BY SENATOR HARKIN

### INSTITUTIONALIZING DEMOCRACY AND REFORMS

SENATOR HARKIN: I would like to address the question of U.S. policy in El Salvador. On that point, I recently read a study written by four lieutenant colonels in the U.S. Army while they were National Security Fellows at Harvard University's John F. Kennedy School of Government.

One of the conclusions of that study (entitled "American Policy in Small Wars: The Case of El Salvador") was that: "The Salvadorans have yet to devise a persuasive formula for winning the war. By most estimates, the war in El Salvador; unhappily, the United States finds itself stuck with the war."

The study also concluded that the Salvadoran Government has failed to "transform itself into an institution perceived as effective, impartial, and committed to bringing about genuine reform."

Mr. Derwinski, I find this conclusion interesting in light of an answer you gave to a question I submitted during a hearing of this subcommittee last July 14.

At that time, you stated the Salvadoran civil war "cannot be solved by military means alone. The policy of the Government of El Salvador is to institutionalize democracy, eliminate human rights abuses, and try to distribute the political, economic, and social benefits of an open democratic society to all Salvadorans."

Would you still conclude that the Government of El Salvador has been successful at institutionalizing democracy and instituting essential political and economic reforms?

MR. DERWINSKI: I would like first to note that the authors of the study may be qualified to comment on military matters, but their credentials for making judgments about social and political institutions have not been established. In any event, their statement should not be viewed as a sweeping condemnation of the government, but rather as part of their analysis as to why the effort to defeat the communist insurgency has not yet fully succeeded.

It is essential to discuss the institutionalization of democracy and reforms in terms of an ongoing process. In this regard, we must recall that only eight years have elapsed in the struggle of Salvadoran democrats to overcome generations of military rule and repression and install genuine democratic government. Salvadorans have tried to achieve this goal in a highly polarized environment whose chief political-military characteristic is a ruthless communist insurgency that will have no truck with democratic government or reforms that fall short of anything but the complete destruction of the political, economic, and social structure.

Given the historical baggage and the current environment, it is not realistic to expect that the government would by now have been completely successful in institutionalizing democracy and perfecting the many reforms needed to bring a greater measure of political freedom, economic opportunity, and social equality to the people of El Salvador. Nevertheless, despite the obstacles confronting the government, significant progress has been made in each of these critical areas. U.S. policy is designed to further this progress, with the long-term goal being the genuine institutionalization of democracy.

We believe that significant progress has been made in many areas over the past several years. The government has presided over five free and fair elections; it has reduced human rights abuses by its military and security forces; it has sponsored a far-reaching judicial reform program; it has begun the process of making the Legislative Assembly a genuine force in governmental politics; it continues to develop and strengthen the 1980 land reform. The press is demonstrably unfettered, with even the guerrillas having access to the media through radio and television programs and a variety of publications. Independent political parties of the right and left have been formed, and a vibrant and pluralistic political environment exists. The political allies of the insurgents have returned to the country and are comtemplating participation in the 1989 presidential election. The union movement is growing, in particular those unions committed to democracy. Yet even unions controlled by the communist guerrillas -- unions that help implement the insurrectional strategy of the guerrillas -- are permitted to function. (To be sure, individual union members with ties to the guerrillas are subject to arrest and prosecution.) The government has passed a variety of legislation designed to strengthen the economy, streamline the bureaucracy, and spread the tax burden more equitably.

There is no doubt that much work remains to be done in all areas of government endeavor. Indeed, U.S. policy recognizes that El Salvador's new democratic system is far from perfect and perilously subject to destabilizing political forces from both the anti-democratic right and the communist left. U.S. policy is to continue to help the Government of El Salvador rebuff these challenges and implement political, economic, and social reforms. Comparison with 1979 shows clearly that the Government of El Salvador is committed to democratic reform. It has not been easy, nor will it be easy for the foreseeable future, but the effort deserves the continuing strong support of the United States.

## AFTERMATH OF THE MARCH ELECTIONS

SENATOR HARKIN: I find recent events in Salvador disturbing, as reported in a May 23 Newsweek, entitled "Plummeting Into the Abyss."

First, according to figures by the Roman Catholic Church in San Salvador, there have been roughly as many death-squad murders in the first three months of 1988 as in all of last year. The government's own Human Rights Commission warns of "a bloodbath of uncontrollable and disastrous consequences." This May Judge Jorge Alberto Serrano was gunned down, death-squad style, outside of his San Salvador home.

Second, Salvador's political system is in virtual chaos. The National Assembly can't even agree to meet because of disputed results of the March parliamentary elections. Christian Democrats challenge ARENA's claim to having won a majority in the March assembly elections. ARENA charge fraud. In the meantime, the Assembly is paralyzed.

Third, the Christian Democratic Party is engaged in political suicide. After losing their majority in the National Assembly, the Party recently split right down the middle into the Ray Prendes (sic) and Chavez Mena factions.

What are your views on the March parliamentary elections and their aftermath?

MR. DERWINSKI: Like the four previous elections in El Salvador since 1982, the March 20, 1988, legislative assembly and local government elections were free and fair. Voters signalled their dissatisfaction with the performance of the Christian Democratic government by voting in large numbers for the Nationalist Republican Alliance (ARENA). ARENA won a majority of the municipalities and decisively defeated the PDC in the race for Assembly seats.

Unfortunately, a dispute arose over three of the sixty Assembly seats. One of those seats was eventually awarded to the PDC, another to ARENA. The third seat, in eastern La Union department, remains a source of controversy. For a period of about four weeks, the parties could not arrive at a solution to this problem. As a result two separate Legislative Assemblies were convoked on May 1, while political and legal maneuvering continued. It is important to note that the disputants sought to resolve the problem through political and legal means, rather than resorting to violence. At this writing, through a mix of political maneuvering and bargaining, the problem of two Assemblies appears to have been resolved, the PDC agreeing to join the ARENA Assembly in late May.

Regarding the strife within the PDC, the struggle between Fidel Chavez Mena and Julio Adolfo Rey Prendes is not new. Neither, at this writing, is it over. We do not yet know how the dispute will be resolved, but it is premature to conclude that the split in the party is permanent or, by extension, that the democratic center in El Salvador will be permanently weakened.

Disputes over election results and bitter intra-party rivalries are not unknown in the democratic world. It is perhaps reasonable to expect that such events might be even more likely to occur in new and fragile democracies, such as El Salvador's. We do not believe, however, that intense political struggle necessarily signals the destruction of the democratic process. On the contrary, it may signal the vitality of that process and reflect the freedom that until recently did not exist in El Salvador. Of course, it is not necessary to add that the continuing war imposed on the country by the communist guerrillas takes its toll on political stability as well.

Regarding political violence during 1988, it is clear that the level of violence has increased. This is a worrisome situation that we are monitoring closely. We have made our views known to the highest levels of the civilian government and the military.

There is no indication that the violence that is occurring is authorized or condoned by either the civilian government or the military. At the same time, however, it is clear that military and security force personnel have been involved in some cases. We are pushing for punishment of any government personnel involved in human rights abuses.

As for the alleged return of the death squads, we have seen no indication that the organized paramilitary death squads associated with the military, security forces, and far right wing are operating. As in past years, it is likely that many of the so-called death squad murders recorded by Tutela Legal, the Archbishopric of San Salvador's human rights office, are common crimes. The Department has noted on many occasions the crippling shortcomings in Tutela Legal's methodology, most recently in its April 1, 1988, report to Congress. Aside from common crimes, other alleged death-squad murders result, as noted above, from the unauthorized activities of armed forces personnel -- activities that may often be spontaneous or unrelated to the insurgency.

Regarding the murder of Judge Serrano, it is certainly possible that he was killed by persons associated with the accused in the kidnapping-for-profit case. It is also possible, however, that he was killed by a communist guerrilla death squad, perhaps of the Central American Revolutionary Workers Party (PRTC). Judge Serrano was in charge of the so-called Zona Rosa case, in which members of the PRTC were charged with the murder of 13 persons. The FMLN killed Serrano's predecessor in 1985. While no right wing death squad has claimed credit for recent political violence, the same cannot be said for the guerrillas, who proudly trumpet the murderous activities of their "urban commandos," or, better said, death squads.

SENATOR HARKIN: What do you see as the prospects for an ARENA victory in next March's presidential elections?

MR. DERWINSKI: In view of its strong showing in the March 1988 elections, and given the strife afflicting its main competition, the PDC, ARENA currently has good prospects for the March 1989 presidential election. ARENA has chosen its president, Alfredo Cristiani, to be its candidate.

SENATOR HARKIN: What role does Roberto D'Aubuisson play in the party?

MR. DERWINSKI: Roberto D'Aubuisson, as founder and Honorary President for Life, retains a strong influence in the ARENA party. Other members, including Alfredo Cristiani, the party's president, Armando Calderon Sol, the new mayor of San Salvador, and ex-colonel Sigifredo Ochoa, also play major roles.

SENATOR HARKIN: What is the status of the case against him for his involvement in the 1980 assassination of Archbishop Romero?

MR. DERWINSKI: There are no legal proceedings against Roberto D'Aubuisson for his alleged participation in the assassination of Archbishop Romero. Activity in the case centers around the pending extradition from the U.S. to El Salvador of former Air Force Captain Alvaro Saravia. The extradition hearing has been postponed twice by the presiding judge, at the request of the defense.

SENATOR HARKIN: What links, if any, are there between ARENA and right-wing death-squads?

MR. DERWINSKI: We are unaware of any current links between ARENA and the alleged activities of right-wing death-squads.

## NEGOTIATED SOLUTION TO THE CONFLICT

SENATOR HARKIN: Last year, I asked Mr. Derwinski about the U.S. view on "the ultimate resolution of the conflict" in El Salvador, and about the prospects for a negotiated solution.

Curiously, you did not mention negotiations once in his response. The solution in El Salvador depended upon our success in institutionalizing democracy and in encouraging the guerrillas to integrate themselves into Salvadoran society.

I ask the witnesses, does U.S. policy rule out the possibility of direct negotiations to resolve the war in El Salvador? In the absence of military victory, faced by fragmentation of the political center and our inability to institutionalize democracy, are there any other options by negotiations?

MR. DERWINSKI: For a full discussion of the subject of dialogue, I refer you to the Department's April 1, 1988 report to Congress. U.S. policy does not rule out the possibility of direct negotiations to resolve the war in El Salvador. U.S. policy does, however, recognize the realities of guerrilla strategy, ideology, and past and present negotiating positions. An examination of each of these areas makes it clear that the guerrillas are not interested in negotiating anything other than the complete overthrow of the existing constitutional system. Knowing that they will not be able to achieve such a result through negotiations, they state repeatedly in high level documents, which have been captured, that negotiations are a vehicle to weaken the government and further the guerrillas' revolutionary goals. Given this continuing attitude on the part of the guerrillas, U.S. policy recognizes that a negotiated settlement to the conflict in the near future is not likely.

At the same time, U.S. policy does not rule out direct negotiations between the government and the guerrillas. On the contrary, we have supported each of President Duarte's initiatives on dialogue and will continue to support any such efforts in the future. The U.S. position has been and will continue to be that it is the Government of El Salvador, not the United States Government, that is best positioned to determine when and under what circumstances to talk to the guerrillas.

SENATOR HARKIN: What is the status of talks in El Salvador?

MR. DERWINSKI: Shortly before he traveled to the United States for medical treatment, President Duarte initiated meetings among the government, the PDC, ARENA, and the PCN, with the object of formulating a national dialogue position to be presented to the guerrillas. That process will obviously be delayed because of the President's illness.

The Salvadoran government's position -- in compliance with the goals of the Arias plan -- continues to be that the guerrillas must express their desire to eventually lay down their weapons and join the democratic process before there will be more talks.

SENATOR HARKIN: What is the position of the State Department and our Embassy in San Salvador on the Salvadoran Government resuming direct talks with the guerrillas aimed at a negotiated resolution of the war?

MR. DERWINSKI: As I noted above, the U.S. supports the efforts of the Government of El Salvador to reach a negotiated solution to the insurgency. The U.S. position is that it is the Government of El Salvador, not the United States Government, that is best positioned to determine when and under what circumstances (e.g., direct talks) to talk to the guerrillas. The Government of El Salvador has met with the guerrillas on 17 separate occasions since 1983.

SENATOR HARKIN: What is the position of the Salvadoran military?

MR. DERWINSKI: Military leaders have made clear on numerous occasions that they support the efforts of the government to reach a political solution to the conflict within the framework of the 1983 constitution and the existing democratic process.

## THE GUERRILLAS' MAY 14 PROPOSAL

SENATOR HARKIN: On May 14, representatives of the Salvadoran guerrillas met with President Oscar Arias and presented him a copy of a proposal to resume peace talks with the Salvadoran Government. This plan, which has been presented to the Salvadoran government, calls for a resumption of dialogue between the parties, and proposes a meeting to lead to a negotiating process between top-level delegations of the FDR, FMLN, and the Salvadoran Legislative Assembly, executive branch, and Armed Forces.

What is the position of the State Department on this proposal?

MR. DERWINSKI: As with other guerrilla initiatives, U.S. policy is to support the response developed by the Government of El Salvador. Nevertheless, in principle we would have doubts about the good will of any proposal from a communist guerrilla organization that stated the following in a General Command "Strategic Appreciation," captured from a courier carrying documents from Joaquin Villalobos to Ferman Cienfuegos in January 1988:

"Dialogue should accompany the intensification of the military struggle and the radicalization of the masses... as a means of changing the correlation of forces to benefit the revolution."

"The negotiation dialogue is not an end. It is a means. Whatever form a negotiated political solution takes does not mean that we cease the struggle. Even under the best negotiated solution, it would mean we would put more emphasis in the political, rather than the military struggle; but in the most likely outcome, it would mean the continuation of the struggle in all its forms -- political and military -- but now from a position of legitimate and recognized power at the national and, to a good extent, international level."

"In dialogue, we start from the premise of keeping the enemy tied to the table with the objective of bringing about his strategic weakening and the creation of political barriers against intervention.... Dialogue is one form of the conspiratorial struggle and we should maintain and strengthen it."

Again, these words are taken from a document produced at the highest level of the guerrilla command. They should be considered a more reliable indicator of the guerrillas' true outlook and intentions than public proposals put forth for what may well be strategic and propaganda purposes.

SENATOR HARKIN: What has been the response of the Salvadoran Government?

MR. DERWINSKI: To our knowledge, the Government of El Salvador has not formally responded to the proposal.

## LEGISLATIVE MEASURES

SENATOR HARKIN: What is your opinion on legislative efforts to encourage negotiations and dialogue between the warring parties in El Salvador?

MR. DERWINSKI: Legislative proposals advanced so far would focus on pressuring the Salvadoran government. As such, we consider them to be misguided, counter-productive, and potentially destabilizing. They would undermine these in El Salvador who have risked their lives to bring about democratic government. They also betray an unrealistic belief in the good faith of the guerrillas and would give them an unfair advantage. We therefore oppose these efforts.

Generally, the answer to this question is intimately bound up in U.S. foreign policy goals vis-a-vis El Salvador. U.S. policy seeks to promote the development of a functioning democratic government that effectively brings equitable economic growth and social justice to the country. At the same time, U.S. policy provides the government the wherewithal to defend itself against the communist guerrillas. U.S. military assistance, combined with democratization and improvements in the effectiveness and human rights performance of the military, have foreclosed military victory as a viable option for the guerrillas.

As we know, U.S. Government actions can have a strong impact on events in El Salvador. Obviously, the Government of El Salvador -- given the amount of aid it receives from the U.S. -- is extremely sensitive to signals emanating from the U.S. It is also true, however, that the communist guerrillas and their social-democratic allies closely monitor developments in Washington, particularly in the Congress.

If we accept that U.S. goals in El Salvador are desirable, and if we accept (reluctantly) that the conflict is likely to continue for some time because of continuing guerrilla intransigence, the Congress can make a greater contribution to peace by continuing to make clear to the communists that the Congress has no sympathy for their totalitarian objectives, that the time had come for them -- like their civilian allies -- to integrate themselves in the existing process, and to make clear to them that as long as the Government of El Salvador demonstrates its commitment to democracy, economic and social reform, and human rights, U.S. assistance to the government will continue.

At the same time (keeping in mind U.S. goals), it would be a serious mistake to impose penalties on the Government of El Salvador for failure to fulfill arbitrary conditions. First, of course, as noted above, there is irrefutable documentary evidence that the guerrillas have no desire to engage in good faith dialogue tending toward a political settlement under the democratic system. The guerrillas seek to use dialogue to weaken the government and, concomitantly, increase their own legitimacy. Forcing the government to engage in dialogue under conditions not of its own choosing would be to play directly into the hands of the guerrillas.

Second, the government has evinced its desire to engage in dialogue under the Arias plan on many occasions. President Duarte has said, however, that he is not prepared to engage in talks solely for tactical advantage or to discuss continuation of the conflict under different ground rules. In conformance with the Arias plan, Duarte demands that the guerrillas demonstrate their willingness to eventually lay down their weapons and enter the democratic process.

Third, imposing conditions on the Government would send a signal to those participating in the democratic process that the U.S. commitment was on the wane. It would discourage the efforts of those democrats to continue making progress and strengthen the hand of the violent extremes. In particular, of course, it would send a signal to the communists that they simply would have to keep fighting until U.S. support for the government and the democratic process evaporated. This would have an extremely detrimental effect both on democratization and the prospects for reducing the military capabilities of the guerrillas.

Fourth, it is essential to note that, even in the absence of formal dialogue sessions, the Government of El Salvador -- through its very efforts to democratize society -- is engaged in efforts to end the conflict peacefully. How else to explain the decision of the government to allow Guillermo Ungo, Ruben Zamora, and the entire leadership of the FDR to return to the country?; the ease with which Zamora and Ungo are getting their message to the people through unrestricted access to the media, in particular television and radio?; the legal inscription of the Social Democratic Party, the successful efforts of Ungo's MNR to update its inscription, and the efforts of Zamora's MPSC to secure legal inscription?; the movement of the Democratic Convergence toward participation in the 1989 presidential election?

The Government of El Salvador has made and continues to make efforts to produce a political settlement to the conflict. The Congress can contribute to that settlement, in conformance with the goals of the U.S. and Salvadoran governments, by demonstrating unequivocally to the communists that they will get no sympathetic hearing in the U.S. And it can contribute to that settlement by also demonstrating to Salvadoran democrats and communists alike that U.S. support for the democratic process and material assistance to revive the economy and sustain the military will continue.

SENATOR HARKIN: What are your views on legislative efforts to promote progress on human rights?

MR. DERWINSKI: As we have seen in the past, legislation that relates to progress in the legal system on individual cases of human rights abuse does not produce the desired results. Withholding military assistance funds diminishes the capacity of the government to counter the communist insurgency and has not extracted results from the judicial system. The Salvadoran judicial system moves at its own pace, as do judicial systems throughout the world.

Constant efforts by our representatives in El Salvador, supplemented by expressions of Congressional concern, have produced positive results. The executive branch remains staunchly committed to our long-standing goal of improving the human rights performance of the government and its forces.

In a broader sense, legislation conditioning assistance on the attainment of specific goals in the realm of human rights would also be counter-productive. It is simply not possible to legislate the many fundamental changes that are occurring in El Salvador. Nor would it be reasonable -- given the clear commitment of the government and the military to improve the human rights situation -- to penalize the government for outlaw activities of the extreme right or the extreme left. Rather, the persistent efforts of U.S. representatives to work with the Salvadorans to produce those changes is most effective. Congress can assist in this effort by making it clear individually and collectively that it supports the efforts of Salvadoran democrats to improve the human rights situation and condemns any violent activities perpetrated by the extremes.

## THE NORDAC CASE

SENATOR HARKIN: What is the status of the NORDAC case, which involved a 1983 sale to the Salvadoran Army of defective ammunition under a $4.8 million contract financed with U.S. military assistance?

MR. DERWINSKI: To our knowledge, the Salvadoran Attorney General's investigation into the involvement of Salvadoran military personnel in the NORDAC case remains open. We are unaware, of any progress in the case. The financing for the NORDAC contract was from FMS credits and is being repaid to the U.S. by the Government of El Salvador.

## THE KIDNAPPING-FOR-HIRE CASE

SENATOR HARKIN: What is the status of the kidnapping-for-hire case, which involved a ring of high-ranking military officers who kidnapped at least 5 businessmen between 1982 and 1985?

MR. DERWINSKI: Movement of the kidnapping case through the judicial system has not been exempt from the inefficiency of the judicial system. Judge Serrano's investigation of the case was halted for months during 1987, pending a Supreme Court ruling on habeas corpus petitions submitted by the defense. (All work on a case ceases when the file is forwarded to the Supreme Court for a habeas corpus decision.) The Court rejected the habeas corpus petitions on December 19, 1987, and returned the case to judge Serrano in January 1988. At the time of his assassination, Serrano was in the process of formulating his ruling on whether the defendents were eligible for the government's amnesty. (Kidnapping is specifically exempted from amnesty under the legislation.)

It is reasonable to expect that the defense will continue to employ any legal tactic at its disposal to produce delays in the judicial process. The government, nevertheless, is clearly committed to following through on the case.

SENATOR HARKIN: What will be the impact of the assassination of Judge Serrano, who was about to rule on the kidnappers' plea for amnesty just before his death.

MR. DERWINSKI: The case will no doubt be delayed by Judge Serrano's assassination. On May 12, 1988, the Supreme Court named a Justice of the Peace to replace Serrano on an interim basis, pending the selection of a permanent replacement. Clearly, movement of the case through the system will suffer because of the need for the new judge to familiarize himself with the voluminous amount of evidence and the complex issues involved in the case. Given the fact that the kidnapping case appears to be clearly exempted from consideration for amnesty, we would not expect Serrano's death to have any impact on this issue.

SENATOR HARKIN: What is the status of the investigation into the assassination of Judge Serrano?

MR. DERWINSKI: The investigation into the assassination continues. There are as yet no suspects.

## OBLIGATION OF U.S. MAP FUNDS

SENATOR HARKIN: Could you provide a table of rates of obligation of U.S. MAP funds for El Salvador for the past four fiscal years, including the current one?

MR. DERWINSKI: The Defense Security Assistance Agency has provided us with a table of implementation values which I believe responds to your question. The table follows:

## EL SALVADOR

## IMPLEMENTATION VALUES

## FY 85 - FY 88

| FISCAL YEAR | FY85 | FY86 | FY87 | FY88 |
|---|---|---|---|---|
| MONTH | | | | |
| OCT | 19,773,447 | 5,414,052 | 2,682,209 | 8,227,334 |
| NOV | 17,324,370 | 5,396,513 | 1,337,367 | 969,582 |
| DEC | 10,770,139 | 21,435,046 | 20,247,129 | 5,022,827 |
| JAN | 8,935,637 | 12,501,199 | 7,842,311 | 3,997,990 |
| FEB | 27,632,922 | 20,323,679 | 9,377,712 | 21,270,854 |
| MAR | 38,426,092 | 25,659,227 | 22,309,379 | 9,013,949 |
| APR | 28,581,907 | 18,398,596 | 16,997,052 | 13,287,914 |
| MAY | 8,681,248 | 4,639,930 | 8,972,232 | 11,922,755 |
| JUN | 16,307,425 | 10,415,733 | 7,643,977 | |
| JUL | 1,818,208 | 2,484,419 | 1,114,186 | |
| AUG | 7,774,394 | 45,619 | 8,303,831 | |
| SEP | 1,035,243 | 5,245,719 | 388,278 | |

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### IMET FUNDING

SENATOR KASTEN: I have been a strong supporter of IMET funding, but that becomes difficult when I see grant money going to such countries as Austria, Finland, Iceland, and Singapore. While the amounts are small, why would we provide these relatively rich countries with grant money? What is the money for? Is any of it used for representational expenses?

MR. WHITEHEAD: The United States defense assistance program with Austria will help support Austria in its current political and military posture. The U.S. has had an IMET relationship which allows a number of Austrian officers to study at U.S. service schools each year. The IMET program is designed to assist Austria in developing the expertise to effectively manage its defense and to enhance relations between the U.S. and Austrian armed forces. Finland follows a policy of armed neutrality. The United States supports this neutrality, independence and Western cultural orientation. The IMET program has produced a group of officers who now have a first-hand understanding of U.S. military and foreign policy. The continued IMET program will enhance this understanding and improve Nordic stability. Iceland's coalition government supports its membership in NATO and the existence of the U.S.-manned bases at Keflavik. Nevertheless, public support for these relationships has declined. The proposed IMET program for Iceland will support Iceland's efforts to fulfill its mission as a member of NATO and improve U.S. military contact and relationships. The Government of Singapore strongly supports U.S. policy and military presence in Southeast Asia. Singapore is developing a defense force to deter external threats and protect vital regional sea lanes critical to international commerce. The use of IMET for these and other developed or relatively high per capita income countries encourages them to participate in U.S. training that we want them to have, but that they might purchase elsewhere. Improved military-to-military relationships and civilian and military contacts with all these countries are in the interest of the United States foreign policy and national security.

### FMS REQUEST

SENATOR KASTEN: When you constructed your FMS dollar request for FY 1989, shall we assume that, had you not asked for an all-forgiven program, you would have had to ask for a higher level and that the forgiveness element of your FMS request is almost as important as the dollar level?

MR. WHITEHEAD: Absolutely, the request for an all-forgiven, or non-repayable, FMS program is one of the most important security assistance policy initiatives in the Administration's FY 1989 request and is designed to compensate for lower aid levels required by the November Budget Summit Compromise between Congress and the Administration. An all-forgiven FMS program would improve the quality of reduced funding levels for countries of strategic importance. Such a program would also ease the serious debt burden of key allies and friends.

## STATUS OF BASE NEGOTIATIONS

SENATOR KASTEN: There are several base negotiations ongoing at the present time. Can you give us a status report on each one?

MR. WHITEHEAD: Our 1983 Defense and Economic Cooperation Agreement (DECA) with Greece can be terminated at the end of 1988. Prime Minister Papandreou has stated that he will give notice of termination at the earliest possible date, this July. If we do not sign a new agreement we would have to withdraw all of our personnel by mid-1990. U.S. special Negotiator Alan Flanigan has been holding talks with the Greek Government on a regular basis since November 1987. While we cannot predict the outcome, we feel the negotiations have been proceeding in a businesslike manner and that there has been some progress.

We are working toward the early conclusion of the base negotiations with Spain. Working groups are continuing to labor to negotiate final texts to replace the old accord, which expired May 13. Although our rights and privileges remain protected for one year, we wish to wrap up an agreement soon. Major elements, such as continued use of Rota navy base, Bardenas Reales bombing range, and other Spanish installations were agreed last January. The new accord's longer eight-year term, end to Foreign Military Sales (FMS) and Economic Support Fund (ESF) assistance, and planning for use of Spanish bases to reinforce NATO in time of crisis or war are major improvements. We remain disappointed by the Spanish Government's decision that our 401st Tactical Fighter Wing must leave Spain within three years.

Because of disappointment with declining levels of U.S. security assistance, the Portuguese have requested consultations under a provision of the 1983 agreement which extended U.S. use of facilities in the Azores until 1991. The Portuguese have indicated that they do not wish to reduce U.S. access or operating rights, but rather to identify and overcome some problems in security cooperation and explore the possibilities of expanding the framework of bilateral cooperation in other fields as well. The first round of consultations took place April 29th in Lisbon. Both Portugal and the U.S. hope to complete a productive consultations process during the summer of 1988. Given Portugal's well-deserved reputation as a dependable U.S. ally and the importance of our bases in the Azores in fulfilling commitments in Europe and the Near East, we hope that the consultations will result in a broader, more sustainable relationship with this key ally.

## MOROCCO

SENATOR KASTEN: Are we looking to Morocco for help to pick up some of our requirements lost in Spain? I understand that Morocco has let it be known that she would be willing to help.

MR. WHITEHEAD: We have a long-standing and mutually beneficial relationship of military cooperation with Morocco, which is independent of our arrangements with Spain, under NATO. The relocation of the U.S. fighter wing which will leave Spain is under consideration in a NATO context. It is anticipated that it will be based in another NATO country.

## WESTERN SAHARA

SENATOR KASTEN: Do we still have restrictions on official U.S. Government activity in the Western Sahara? If so, why? Clearly the people in that area consider themselves Moroccans and the so-called opposition is not even in the country. In fact, the leader of the Polisario is himself Moroccan, born in Marakesh where some of his family still lives.

MR. WHITEHEAD: We closely control the presence and activity of U.S. Government officials in the Western Sahara in support of the U.S. policy of neutrality in the Western Sahara conflict. In the U.S. view, the question of sovereignty over the Western Sahara has not been resolved, although we recognize Morocco's administrative authority in the areas it occupies. The U.S. position is that only negotiations between the parties concerned can produce a durable solution. We have encouraged the parties to engage in dialogue and supported mediation efforts, such as that of UNSYG Perez de Cuellar. We are very encouraged by the recent resumption of diplomatic relations between Algeria and Morocco and hope that this will create an atmosphere for progress in ending this dispute.

## MILITARY AND ECONOMIC SITUATION IN EL SALVADOR

SENATOR KASTEN: We continue to receive reports that both the military and economic situation in El Salvador has deteriorated badly. Can you give us a current assessment of both situations?

MR. WHITEHEAD: On the contrary, the Salvadoran military retains the upper hand in the conflict with the insurgency, but has been unable to defeat the guerrillas decisively due to guerrilla tactics of concentrating on very small unit, hit-and-run attacks; the heavy use of land mines; sabotage against isolated power transmission lines and other economic targets; and use of sanctuaries in disputed territory on the El Salvador-Honduras border. The guerrillas, however, have been unable to mount a successful attack on a fixed military installation in more than a year. They have taken heavy casualties among their elite special forces units in several unsuccessful attacks, including the recent attack on a major hydroelectric facility which destroyed two transformers but left the dam and the most important equipment intact. Improved army operations have also led to increased guerrilla casualties and have kept the insurgents off-balance, especially near the border areas. The guerrillas have been unable to expand their ranks, except through forced recruitment, and have lost significant popular support since the late 1970's. Assuming continued U.S. support to the government, the insurgents cannot win militarily and will continue to be worn down, although we must be prepared for a long-term commitment. We would expect that as the insurgents' military power diminishes, they will become more willing to accept a negotiated solution within the framework of the regional peace agreement.

Economically, El Salvador's situation has improved modestly over the early 1980's. There was real GDP growth in 1987 of about 2.6 percent, after two previous years of lower, but positive, growth. Inflation decreased from 32 percent to about 25 percent, last year. Unemployment and underemployment together continue to be a serious problem but actual unemployment is far below the 30-40 percent figures sometimes claimed in the media. The economy has suffered a number of setbacks, however. Droughts have hurt agricultural production for the past two years. Declining U.S. sugar quotas have hurt the sugar industry. Guerrilla sabotage has hit the cotton and cattle industries, and sabotage of the power grid has cost millions in infrastructure damage and economic losses. Coffee prices were down, last year, as well. The 1986 earthquake cost about $1 billion in damage and losses. Given the problems the country faces, its modest economic performance is encouraging.

SENATOR KASTEN: What is the Pentagon's view of the so-called Fair Pricing legislation which is designed to treat Israeli purchases of F-16's the same as NATO purchases?

LIEUTENANT GENERAL BROWN: The Secretary of Defense has endorsed the Fair Pricing initiative. Legislation implementing this initiative, such as proposed by the Senate Appropriations Committee, Foreign Operations Subcommittee last year, would strengthen U.S. national security by significantly increasing the buying power of scarce U.S. foreign military assistance resources and enhancing the international competitiveness of the U.S. defense industry.

Fair Pricing would change the way add-on charges are assessed against foreign military sales. It, for the most part, would require the foreign military assistance program to cover only the costs that it creates; the program would no longer be required to cover also those "fixed" or "sunk" costs that the U.S. would incur in the absence of the program, as is current practice. Fair Pricing differs from and is more extensive in most instances than cost savings currently available to NATO and other major allies under existing law. It is not intended for any particular country, but would benefit all friends and allies purchasing U. S. defense equipment and services.

The "fair" or "incremental" pricing concept would be applied fully to all sales financed by MAP or non-repayable FMS Credits-both of which are forms of U.S. grant financing. A partial exception would be made for sales financed by repayable FMS Credits or cash, which still would be assessed a share of relevant "sunk" non-recurring research, development, and production costs. This exception was made to minimize the impact of Fair Pricing on the DoD budget, and is targeted against countries most able to afford it. These sales would not be assessed other fixed or sunk costs, such as for U.S. military salaries and facilities.

It is estimated that Fair Pricing would increase the buying power of countries utilizing MAP or non-repayable FMS Credits by 6 percent and of countries utilizing other funds by 3 percent. At the same time, Fair Pricing would be expected to reduce the FMS subsidy to the DoD budget by an estimated $278M (in a typical year) in lost reimbursements and offsetting receipts. While all budget reductions are painful in this constrained budget environment, the Secretary of Defense has concluded that, on balance, Fair Pricing would be a cost-effective investment in our national security. It would significantly enhance the value of U.S. military assistance funds at a time when deficit reduction has produced serious funding reductions. It would also encourage friends and allies to turn to U.S. industry for their defense needs rather than to other suppliers, who often are less constrained in their solicitation of purchasers.

### SUBCOMMITTEE RECESS

Senator INOUYE. I'd like to thank all of you for participating this morning and assisting us. It has been very helpful. I thank you very much.

This subcommittee will stand in recess until 10 a.m., June 8, and at that time, we will receive testimony from witnesses on matters relating to the Export-Import Bank of the United States, the AID Trade Credit Insurance Program, the AID Trade and Development Program, and the Overseas Private Investment Corporation.

[Whereupon, at 11:55 a.m., Thursday, May 26, the subcommittee was recessed, to reconvene at 10 a.m., June 8, 1988.]

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